

**Mason Public Schools  
Mason, Michigan**

**FINANCIAL STATEMENTS**

**June 30, 2007**

Mason Public Schools

Mason, Michigan

BOARD OF EDUCATION

June 30, 2007

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Mason Public Schools

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INDEPENDENT AUDITOR'S REPORT

To the Board of Education  
Mason Public Schools  
Mason, Michigan

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Mason Public Schools as of and for the year ended June 30, 2007, which collectively comprise the District's basic financial statements as listed in the table of contents. These financial statements are the responsibility of Mason Public Schools' management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of Mason Public Schools as of June 30, 2007, and the respective changes in financial position, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated September 19, 2007 on our consideration of Mason Public Schools' internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, grant agreements, and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

The management's discussion and analysis and budgetary comparison information, as identified in the table of contents, are not a required part of the basic financial statements but are supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise Mason Public Schools' basic financial statements. The accompanying other supplementary information, as identified in the table of contents, is presented for the purpose of additional analysis and is not a required part of the basic financial statements. The other supplementary information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

*Abraham & Gaffney, P.C.*

ABRAHAM & GAFFNEY, P.C.  
Certified Public Accountants

September 19, 2007

Mason Public Schools

MANAGEMENT'S DISCUSSION AND ANALYSIS

June 30, 2007

This section of Mason Public Schools District's (MPS) annual financial report presents our discussion and analysis of the District's financial performance during the fiscal year that ended on June 30, 2007.

**FINANCIAL HIGHLIGHTS**

- The District's financial situation remained stable for the sixth year in a row. Total net assets increased slightly to almost \$18.5 million over the course of the year.
- Total District revenues exceeded \$30.7 million with spending around \$30.4 million. Overall revenues for 2006-07 increased by 3.2% while total district expenses increased 2.0%.
- Enrollment decreased by 21 students from 2005-2006 to 2006-2007, bringing the student blended enrollment to 3,104. This represents a decrease of less than 1%.
- The general-use Capital Project fund has a balance of \$31,675 at June 30, 2007. The fund spent \$282,000 on capital needs in the District during 2006-07.
- The District's fund balances decreased from \$6.4 million at the end of fiscal year 2006 to about \$4.6 million at the end of fiscal year 2007. The decrease is due mostly to the final spending stages of our 2004 Capital Projects fund and our 2004 School Improvement fund, as well as a planned decrease in General fund balance.
- The General fund's balance decreased by \$65,063 to about \$3.3 million at June 30, 2007, which was an improvement by about \$259,000 over the amount originally budgeted.
- During the 2006-07 fiscal year the District repaid \$1,656,533 of principal from its long-term debt while incurring no new debt.
- The District achieved adequate yearly progress at all levels again in 2006-07 and all buildings received an Accreditation grade of either A or B.

MANAGEMENT'S DISCUSSION AND ANALYSIS

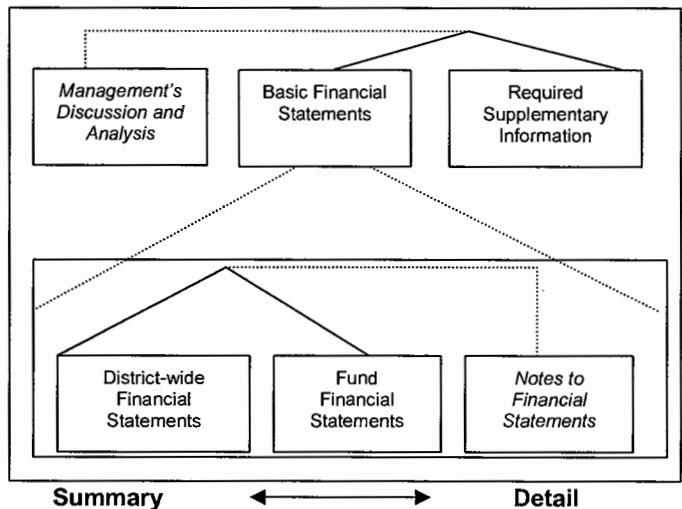
June 30, 2007

OVERVIEW OF THE FINANCIAL STATEMENTS

This annual report consists of three parts - management's discussion and analysis (this section), the basic financial statements, and required supplementary information. The basic financial statements include two kinds of statements that present different views of the District:

- The first two statements are *district-wide financial statements* that provide both *short-term* and *long-term* information about the District's *overall* financial status.
- The remaining statements are *fund financial statements* that focus on *individual parts* of the District, reporting the District's operations in *more detail* than the district-wide statements.
- The *governmental funds* statements tell how *basic* services like regular and special education were financed in the *short-term* as well as what remains for future spending.
- *Fiduciary funds* statements provide information about the financial relationships in which the District acts solely as a *trustee or agent* for the benefit of others.

**Figure A-1  
Organization of Mason Public School's  
Annual Financial Report**



The financial statements also include *notes* that explain some of the information in the statements and provide more detailed data. The statements are followed by a section of *required supplementary information* that further explains and supports the financial statements with a comparison of the District's budget for the year. Figure A-1 shows how the various parts of this annual report are arranged and related to one another.

Mason Public Schools

MANAGEMENT'S DISCUSSION AND ANALYSIS

June 30, 2007

| <p><b>Figure A-2</b><br/><b>Major Features of District-Wide and Fund Financial Statements</b></p> |  |  |   |
|---|--|--|---|
|   | District-wide<br>Statements  | Fund Financial Statements  |   |
|   |  | Governmental Funds   | Fiduciary Funds   |
| Scope   | Entire district<br>(except fiduciary funds)  | The activities of the district that are not proprietary or fiduciary, such as special education and building maintenance.  | Instances in which the district administers resources on behalf of someone else, such as scholarship programs and student activities monies   |
| Required financial statements   | <ul style="list-style-type: none"> <li>* Statement of net assets</li> <li>* Statement of activities</li> </ul> | <ul style="list-style-type: none"> <li>* Balance sheet</li> <li>* Statement of revenues, expenditures and changes in fund balances</li> </ul>                                    | <ul style="list-style-type: none"> <li>* Statement of fiduciary net assets</li> <li>* Statement of changes in fiduciary net assets</li> </ul> |
| Accounting basis and measurement focus  | Accrual accounting and economic resources focus  | Modified accrual accounting and current financial resources focus  | Accrual accounting and economic resources focus   |
| Type of asset/liability information   | All assets and liabilities, both financial and capital, short-term and long-term                               | Generally assets expected to be used up and liabilities that come due during the year or soon thereafter; no capital assets or long-term liabilities included                    | All assets and liabilities, both short-term and long-term, MPS's funds do not currently contain capital assets, although they can             |
| Type of inflow/outflow information  | All revenues and expenses during year, regardless of when cash is received or paid                             | Revenue for which cash is received during or soon after the end of the year, expenditures when goods or services have been received and the related liability is due and payable | All additions and deductions during the year, regardless of when cash is received or paid   |

Figure A-2 summarizes the major features of the District's financial statements, including the portion of the District's activities they cover and the types of information they contain. The remainder of this overview section of management's discussion and analysis highlights the structure and contents of each of the statements.



MANAGEMENT'S DISCUSSION AND ANALYSIS

June 30, 2007

**DISTRICT-WIDE FINANCIAL STATEMENTS**

The district-wide statements report information about the District as a whole using accounting methods similar to those used by private-sector companies. The statement of net assets includes *all* of the District's assets and liabilities. All of the current year's revenues and expenses are accounted for in the statement of activities regardless of when cash is received or paid.

The two district-wide statements report the District's *net assets* and how they have changed. Net assets - the difference between the District's assets and liabilities - are one way to measure the District's financial health or *position*.

- Over time, increases or decreases in the District's net assets are an indicator of whether its financial position is improving or deteriorating, respectively.
- To assess the overall health of the District, one needs to consider additional nonfinancial factors such as changes in the District's property tax base and the condition of school buildings and other facilities, as well as the quality of the education provided and the safety of the schools.

In the district-wide financial statements, the District's activities:

- *Governmental activities* - Most of the District's basic services are included here, such as regular and special education, transportation and administration. Property taxes, State Aid foundation, and state and federal grants finance most of these activities.

**FUND FINANCIAL STATEMENTS**

Funds are accounting devices the District uses to keep track of specific sources of funding and spending on particular programs. The fund financial statements provide more detailed information about these funds, focusing on the most significant or "major" ones, not the District as a whole.

- Some funds are required by State law and by bond covenants.
- The District establishes other funds to control and manage money for particular purposes, such as repaying its long-term debts, or to show that it is properly using certain revenues, such as school lunch and athletics.

The District has two kinds of funds:

- *Governmental funds* - Most of the District's basic services are included in governmental funds, which generally focus on (1) how *cash and other financial assets* that can readily be converted to cash flow in and out, and (2) the balances left at year-end that are available for spending. Consequently, the governmental funds statements provide a detailed *short-term* view that helps one determine whether there are financial resources that can be spent in the near future to finance the District's programs. Because this information does not encompass the additional long-term focus of the district-wide statements, we provide additional information with the governmental funds statements that explains the relationship (or differences) between them.
- *Fiduciary funds* - The District is the trustee, or *fiduciary*, for certain assets that belong to others, such as the scholarship fund and the student activities funds. The District is responsible for ensuring that the assets reported in these funds are used only for their intended purposes and by those to whom the assets belong. We exclude these activities from the district-wide financial statements because the District cannot use these assets to finance its operations.

Mason Public Schools

MANAGEMENT'S DISCUSSION AND ANALYSIS

June 30, 2007

**FINANCIAL ANALYSIS OF THE DISTRICT AS A WHOLE**

**Net assets** - The District's net assets increased slightly from the previous year to \$18,458,544. The District's financial position is the product of many factors, as seen in the tables below that show the District's net assets as of June 30, 2006 and June 30, 2007 as well as the change in net assets for each year.

| Table A-3<br>Mason Public Schools' Net Assets      |               |               |
|--|---------------|---------------|
|  | June 30, 2006 | June 30, 2007 |
| Current and other assets                           | \$ 9,387,416  | \$ 7,125,014  |
| Capital assets                                     | 43,165,589    | 43,479,094    |
| Total assets                                       | 52,553,005    | 50,604,108    |
| Current liabilities                                | 5,017,018     | 4,487,632     |
| Long-term debt outstanding                         | 29,404,707    | 27,642,610    |
| Total liabilities                                  | 34,421,725    | 32,130,242    |
| Net assets   |               |               |
| Invested in capital assets,<br>net of related debt | 12,975,884    | 14,945,922    |
| Restricted   | 2,317,367     | 946,464       |
| Unrestricted                                       | 2,838,029     | 2,581,480     |
| Total net assets                                   | \$ 18,131,280 | \$ 18,473,866 |

| Table A-4<br>Changes in Mason Public Schools' Net Assets |              |              |
|--|--------------|--------------|
|  | 2005-2006    | 2006-2007    |
| Revenues   |              |              |
| Program revenues   |              |              |
| Charges for services                                     | \$ 1,511,434 | \$ 1,719,035 |
| Operating and Capital grants                             | 2,326,266    | 2,400,721    |
| General revenues   |              |              |
| Property taxes   | 5,627,026    | 6,136,013    |
| State aid - unrestricted                                 | 18,096,302   | 18,453,511   |
| Other  | 2,272,023    | 2,065,794    |
| Total revenues   | 29,833,051   | 30,775,074   |
| Expenses   |              |              |
| Instruction  | 14,714,520   | 14,934,727   |
| Support services   | 9,711,832    | 9,922,832    |
| Community services                                       | 308,019      | 365,366      |
| Food services  | 1,216,149    | 1,320,345    |
| Athletics  | 737,906      | 790,777      |
| Interest on long-term debt                               | 1,377,723    | 1,333,480    |
| Unallocated depreciation                                 | 1,792,108    | 1,764,961    |
| Total expenses   | 29,858,257   | 30,432,488   |
| Change in net assets                                     | \$ (25,206)  | \$ 342,586   |

MANAGEMENT'S DISCUSSION AND ANALYSIS

June 30, 2007

**District Governmental Activities**

The District's positive financial status is a result of the following actions:

- While student membership declined in 2006-2007, the District had anticipated this decline and so made necessary budget reductions to soften the impact.
- Several years ago, the Board of Education established the goal of maintaining 12% of expenditures as the District's General fund balance.
- The District implemented a Capital Projects fund to address on-going facility maintenance and repair needs of the District on a proactive basis.
- The District's employees have been part of a total compensation method for determining wage and benefit packages. This has allowed the employees and administration to understand the various components to their compensation and work together to structure affordable packages.
- The District has wisely and consistently maintained quality offerings and programming while living within its means.

**FINANCIAL ANALYSIS OF THE DISTRICT'S FUNDS**

The strong financial performance of the District as a whole is reflected in its governmental funds balances. At year-end, its governmental funds reported combined fund balances of \$4,649,710.

The District's General fund had less revenues than expenditures in 2007, thereby contributing to the decrease in total fund balance. The reductions were an intentional use of fund balance either to continue existing programs or to maintain necessary staffing. Five of the six non-major funds ran a current-year deficit. The Special Revenue fund that includes the athletic program had expenditures that were \$4,703 above revenues because some unused resources from previous years were used this year to finance expenditures. The Capital Projects funds incurred deficits as planned projects previously funded were completed. The Food Service fund, 2004 Capital Projects Fund, and 2004 School Improvement Fund had expenditures that were \$3,508, \$1,554,277, and \$16,866 above revenues, respectively.

**General Fund Budgetary Highlights**

The District revised the annual operating budget in January 2007 to adjust for student counts, staff changes, and contract settlements and again in June 2007 to reflect the adjustments in expenditures throughout the year and the increase in funding from the Intermediate School District.

While the District's final budget for the General Fund projected that expenditures would exceed revenues by \$96,114, the actual results for the year was \$31,051 better, ending in a current-year deficit of \$65,063. That is to say, the General fund equity is healthier, by \$31,051, than anticipated.

Overall the change from the original Board adopted 2006-07 budget to year-end actual amounted to revenues that were \$264,576 (1.0%) and expenditures that were \$5,619 (0.1%) greater than the original budget. The significant changes in revenues were higher-than-anticipated property tax collections and greater-than-expected federal grants.

## MANAGEMENT'S DISCUSSION AND ANALYSIS

June 30, 2007

**CAPITAL ASSET AND DEBT ADMINISTRATION****Capital Assets**

By June 30, 2007, the District had invested over \$43 million in a broad range of capital assets, including school buildings, athletic facilities, computer and audiovisual equipment, machinery and transportation equipment. This amount represents a net increase of around \$300,000 over last year. This increase is directly related to the construction in progress from the 2004 Bond project. (More detailed information about capital assets can be found in Note C to the financial statements.) Total depreciation expense for the year was approximately \$1.5 million.

| <b>Table A-5</b>                            |                |                |
|---|----------------|----------------|
| <b>Mason Public Schools' Capital Assets</b> |                |                |
| <i>(in millions)</i>                        |                |                |
|   | <u>2006</u>    | <u>2007</u>    |
| Land  | \$ 0.2         | \$ 0.2         |
| Buildings and additions                     | 41.9           | 42.1           |
| Equipment and furniture                     | 12.0           | 12.0           |
| Transportation equipment                    | 1.7            | 1.6            |
| Other capital equipment                     | 0.8            | 0.8            |
| Construction in progress                    | 10.0           | 11.7           |
| Subtotal                                    | 66.6           | 68.4           |
| Accumulated depreciation                    | (23.4)         | (24.9)         |
| Net capital assets                          | <u>\$ 43.2</u> | <u>\$ 43.5</u> |

The District's fiscal year 2007-2008 budget anticipates spending approximately \$650,000 for capital needs from the new Sinking fund and what is left of the 2004 Bond Project money. The capital needs to be addressed include roof replacements, parking lot repaving, and other equipment and repair/replacement needs across the District.

**Long-term Debt**

At year-end the District had \$29,381,486 million in general obligation bonds and other long-term debt outstanding - a decrease of 5.6 percent from last year. (More detailed information about the District's long-term liabilities is presented in Note D to the financial statements.)

The District paid \$1,656,533 in principal payments during 2006-07 while incurring no new debt.

| <b>Table A-6</b>                        |                |                |
|---|----------------|----------------|
| <b>MPS's Outstanding Long-Term Debt</b> |                |                |
| <i>(in millions of dollars)</i>         |                |                |
|   | <u>2006</u>    | <u>2007</u>    |
| General obligation debts                |                |                |
| (financed with property taxes) \$       | 29.6           | \$ 28.0        |
| Other                                   | 1.5            | 1.4            |
| Total                                   | <u>\$ 31.1</u> | <u>\$ 29.4</u> |

MANAGEMENT'S DISCUSSION AND ANALYSIS

June 30, 2007

**FACTORS BEARING ON THE DISTRICT'S FUTURE**

At the time these financial statements were prepared and audited, the District was aware of the following circumstances that could significantly affect its financial health in the future:

- The 2007-2008 State School Aid Act has not been passed. Thus, there are no indications yet whether the District (as with all other Michigan public schools) will receive more, the same, or less State Aid than in 2006-2007.
- Student enrollment is projected to continue declining, as it gradually has over the last few years.
- The Board has discussed various cost-containment and revenue-generating measures. Topics discussed include selling some of the District's unused vacant land, privatizing certain persons or departments within the District, and the closing of one of its four elementary buildings. No action has yet been taken on any of these.
- All labor contracts are open for negotiations for their 2007-08 economic packages. Collaborative negotiations are on going for all labor groups and contracts will be settled soon within the total compensation parameters.

**CONTACTING THE DISTRICT'S FINANCIAL MANAGEMENT**

This financial report is designed to provide our citizens, taxpayers, customers, investors, and creditors with a general overview of the District's finances and to demonstrate the District's accountability for the money it receives. If you have questions about this report or need additional information, contact James A. Lockwood, the Director of Finance, Mason Public Schools, 118 West Oak Street, Mason, Michigan 48854.

## **BASIC FINANCIAL STATEMENTS**

Mason Public Schools

STATEMENT OF NET ASSETS

June 30, 2007

|   | Governmental<br>Activities |
|---|----------------------------|
| <b>ASSETS</b>                                   |                            |
| Current assets                                  |                            |
| Cash and cash equivalents                       | \$ 2,256,135               |
| Investments                                     | 1,154,468                  |
| Accounts receivable                             | 39,094                     |
| Due from other governmental units               | 3,527,010                  |
| Inventories                                     | 20,102                     |
| Prepays   | 128,205                    |
| Total current assets                            | 7,125,014                  |
| Noncurrent assets                               |                            |
| Capital assets not being depreciated            | 11,899,914                 |
| Capital assets, net of accumulated depreciation | 31,579,180                 |
| Total noncurrent assets                         | 43,479,094                 |
| <b>TOTAL ASSETS</b>                             | <b>50,604,108</b>          |
| <b>LIABILITIES</b>                              |                            |
| Current liabilities                             |                            |
| Accounts payable                                | 135,155                    |
| Accrued payroll                                 | 1,471,829                  |
| Other accrued liabilities                       | 775,793                    |
| Accrued interest payable                        | 210,794                    |
| Unearned revenue                                | 92,527                     |
| Current portion of accrued severance pay        | 90,000                     |
| Current portion of long-term debt               | 1,711,534                  |
| Total current liabilities                       | 4,487,632                  |
| Noncurrent liabilities                          |                            |
| Noncurrent portion of accrued interest payable  | 62,658                     |
| Accrued severance pay                           | 758,314                    |
| Noncurrent portion of long-term debt            | 26,821,638                 |
| Total noncurrent liabilities                    | 27,642,610                 |
| <b>TOTAL LIABILITIES</b>                        | <b>32,130,242</b>          |
| <b>NET ASSETS</b>                               |                            |
| Invested in capital assets, net of related debt | 14,945,922                 |
| Restricted for debt service                     | 827,944                    |
| Restricted for capital projects                 | 118,520                    |
| Unrestricted                                    | 2,581,480                  |
| <b>TOTAL NET ASSETS</b>                         | <b>\$ 18,473,866</b>       |

See accompanying notes to financial statements.

Mason Public Schools

STATEMENT OF ACTIVITIES

Year Ended June 30, 2007

| Governmental activities                    | Expenses             | Program Revenues        |                     |                   | Net (Expense)<br>Revenues and<br>Changes in<br>Net Assets |
|--|----------------------|-------------------------|---------------------|-------------------|---|
|  |                      | Charges for<br>Services | Operating<br>Grants | Capital<br>Grants |   |
| Function/Program                           |                      |                         |                     |                   |   |
| Instruction                                | \$ 14,934,727        | \$ 192,409              | \$ 1,929,229        | \$ 90,364         | \$ (12,722,725)   |
| Supporting services                        | 9,922,832            | 8,650                   | -                   | -                 | (9,914,182)   |
| Community services                         | 365,366              | 267,132                 | -                   | -                 | (98,234)  |
| Food Service                               | 1,320,345            | 961,924                 | 381,128             | -                 | 22,707  |
| Athletics                                  | 790,777              | 288,920                 | -                   | -                 | (501,857)   |
| Interest and costs on long-term debt       | 1,333,480            | -                       | -                   | -                 | (1,333,480)   |
| Unallocated depreciation                   | 1,764,961            | -                       | -                   | -                 | (1,764,961)   |
| <b>TOTAL</b>                               | <b>\$ 30,432,488</b> | <b>\$ 1,719,035</b>     | <b>\$ 2,310,357</b> | <b>\$ 90,364</b>  | <b>(26,312,732)</b>                                       |
| General revenues                           |                      |                         |                     |                   |   |
| Property taxes levied for general purposes |                      |                         |                     |                   | 3,253,888   |
| Property taxes levied for debt service     |                      |                         |                     |                   | 2,882,125   |
| State school aid - unrestricted            |                      |                         |                     |                   | 18,453,511  |
| Investment earnings                        |                      |                         |                     |                   | 209,235   |
| Special education county allocation        |                      |                         |                     |                   | 1,810,380   |
| Miscellaneous                              |                      |                         |                     |                   | 46,179  |
| <b>TOTAL GENERAL REVENUES</b>              |                      |                         |                     |                   | <b>26,655,318</b>   |
| <b>CHANGE IN NET ASSETS</b>                |                      |                         |                     |                   | <b>342,586</b>  |
| Net assets, beginning of year              |                      |                         |                     |                   | 18,131,280  |
| Net assets, end of year                    |                      |                         |                     |                   | <b>\$ 18,473,866</b>                                      |

See accompanying notes to financial statements.



## Mason Public Schools

## GOVERNMENTAL FUNDS BALANCE SHEET

June 30, 2007

|   | General             | 2004<br>Debt<br>Retirement | Nonmajor<br>Governmental<br>Funds | Total<br>Governmental<br>Funds |
|---|---------------------|----------------------------|-----------------------------------|--------------------------------|
| <b>ASSETS</b>                                 |                     |                            |                                   |                                |
| Cash and cash equivalents                     | \$ 2,058,429        | \$ 51,153                  | \$ 146,553                        | \$ 2,256,135                   |
| Investments                                   | -                   | 1,050,184                  | 104,284                           | 1,154,468                      |
| Accounts receivable                           | 39,066              | 28                         | -                                 | 39,094                         |
| Due from other funds                          | -                   | -                          | 20                                | 20                             |
| Due from other governmental units             | 3,516,912           | -                          | 10,098                            | 3,527,010                      |
| Inventories                                   | 6,150               | -                          | 13,952                            | 20,102                         |
| Prepays                                       | 128,205             | -                          | -                                 | 128,205                        |
| <b>TOTAL ASSETS</b>                           | <b>\$ 5,748,762</b> | <b>\$ 1,101,365</b>        | <b>\$ 274,907</b>                 | <b>\$ 7,125,034</b>            |
| <b>LIABILITIES AND FUND BALANCE</b>           |                     |                            |                                   |                                |
| <b>LIABILITIES</b>                            |                     |                            |                                   |                                |
| Accounts payable                              | \$ 126,033          | \$ -                       | \$ 9,122                          | \$ 135,155                     |
| Accrued payroll                               | 1,460,628           | -                          | 11,201                            | 1,471,829                      |
| Other accrued liabilities                     | 770,088             | -                          | 5,705                             | 775,793                        |
| Due to other funds                            | 20                  | -                          | -                                 | 20                             |
| Deferred revenue                              | 83,781              | -                          | 8,746                             | 92,527                         |
| <b>TOTAL LIABILITIES</b>                      | <b>2,440,550</b>    | <b>-0-</b>                 | <b>34,774</b>                     | <b>2,475,324</b>               |
| <b>FUND BALANCE</b>                           |                     |                            |                                   |                                |
| Reserved for                                  |                     |                            |                                   |                                |
| Inventories and prepaids                      | 134,355             | -                          | 13,952                            | 148,307                        |
| Debt service                                  | -                   | 1,101,365                  | 31                                | 1,101,396                      |
| Unreserved                                    |                     |                            |                                   |                                |
| Designated for                                |                     |                            |                                   |                                |
| Debt service                                  | 156,448             | -                          | -                                 | 156,448                        |
| Capital projects                              | -                   | -                          | 150,195                           | 150,195                        |
| Subsequent year's expenditures                | 429,014             | -                          | 35,965                            | 464,979                        |
| Undesignated, reported in                     |                     |                            |                                   |                                |
| General fund                                  | 2,588,395           | -                          | -                                 | 2,588,395                      |
| Special revenue funds                         | -                   | -                          | 39,990                            | 39,990                         |
| <b>TOTAL FUND BALANCE</b>                     | <b>3,308,212</b>    | <b>1,101,365</b>           | <b>240,133</b>                    | <b>4,649,710</b>               |
| <b>TOTAL LIABILITIES<br/>AND FUND BALANCE</b> | <b>\$ 5,748,762</b> | <b>\$ 1,101,365</b>        | <b>\$ 274,907</b>                 | <b>\$ 7,125,034</b>            |

See accompanying notes to financial statements.

Mason Public Schools

RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET TO  
THE STATEMENT OF NET ASSETS

June 30, 2007

**Total fund balance - governmental funds** **\$ 4,649,710**

Amounts reported for the governmental activities in the statement of net assets are different because:

Capital assets used in governmental activities are not financial resources  
and therefore are not reported as assets in the governmental funds.

|                               |                     |            |
|-------------------------------|---------------------|------------|
| The cost of capital assets is | \$ 68,393,602       |            |
| Accumulated depreciation is   | <u>(24,914,508)</u> |            |
|                               |                     | 43,479,094 |

Long-term liabilities are not due and payable in the current period  
and therefore are not reported as liabilities in the funds.

Long-term liabilities at year-end consist of:

|                          |                  |                     |
|--------------------------|------------------|---------------------|
| Bonds and loans payable  | (28,533,172)     |                     |
| Accrued interest payable | (273,452)        |                     |
| Severance pay            | <u>(848,314)</u> |                     |
|                          |                  | <u>(29,654,938)</u> |

**Net assets of governmental activities** **\$ 18,473,866**

See accompanying notes to financial statements.

Mason Public Schools

STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES -  
GOVERNMENTAL FUNDS

Year Ended June 30, 2007

|  | General             | 2004<br>Debt<br>Retirement | Nonmajor<br>Governmental<br>Funds | Total<br>Governmental<br>Funds |
|--|---------------------|----------------------------|-----------------------------------|--------------------------------|
| <b>REVENUES</b>  |                     |                            |                                   |                                |
| Local sources  | \$ 3,832,959        | \$ 2,939,233               | \$ 1,350,000                      | \$ 8,122,192                   |
| State sources  | 19,757,705          | -                          | 67,860                            | 19,825,565                     |
| Federal sources  | 650,465             | -                          | 313,268                           | 963,733                        |
| <b>OTHER FINANCING SOURCES</b>                         |                     |                            |                                   |                                |
| Transfers from other funds                             | 28,000              | -                          | 658,697                           | 686,697                        |
| County special education allocation                    | 1,810,380           | -                          | -                                 | 1,810,380                      |
| Payments from other districts                          | 23,258              | -                          | -                                 | 23,258                         |
| Other transactions                                     | 29,946              | -                          | -                                 | 29,946                         |
| <b>TOTAL REVENUES AND<br/>OTHER FINANCING SOURCES</b>  | <b>26,132,713</b>   | <b>2,939,233</b>           | <b>2,389,825</b>                  | <b>31,461,771</b>              |
| <b>EXPENDITURES</b>                                    |                     |                            |                                   |                                |
| Current  |                     |                            |                                   |                                |
| Instruction  | 15,172,645          | -                          | -                                 | 15,172,645                     |
| Supporting services                                    | 9,922,832           | -                          | -                                 | 9,922,832                      |
| Community services                                     | 365,366             | -                          | -                                 | 365,366                        |
| Food service   | -                   | -                          | 1,320,345                         | 1,320,345                      |
| Athletics  | -                   | -                          | 790,777                           | 790,777                        |
| Debt service   | 74,932              | 2,737,809                  | 176,088                           | 2,988,829                      |
| Capital outlay   | -                   | -                          | 1,932,100                         | 1,932,100                      |
| <b>OTHER FINANCING USES</b>                            |                     |                            |                                   |                                |
| Transfers to other funds                               | 658,697             | -                          | 28,000                            | 686,697                        |
| Payments to other districts                            | 3,304               | -                          | -                                 | 3,304                          |
| <b>TOTAL EXPENDITURES AND<br/>OTHER FINANCING USES</b> | <b>26,197,776</b>   | <b>2,737,809</b>           | <b>4,247,310</b>                  | <b>33,182,895</b>              |
| <b>NET CHANGE IN FUND BALANCES</b>                     | <b>(65,063)</b>     | <b>201,424</b>             | <b>(1,857,485)</b>                | <b>(1,721,124)</b>             |
| Fund balances, beginning of year                       | 3,373,275           | 899,941                    | 2,097,618                         | 6,370,834                      |
| Fund balances, end of year                             | <u>\$ 3,308,212</u> | <u>\$ 1,101,365</u>        | <u>\$ 240,133</u>                 | <u>\$ 4,649,710</u>            |

See accompanying notes to financial statements.

Mason Public Schools

RECONCILIATION OF THE STATEMENT OF REVENUE, EXPENDITURES AND CHANGES IN  
FUND BALANCES OF GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES

Year Ended June 30, 2007

**Net change in fund balances - total governmental funds** **\$ (1,721,124)**

Amounts reported for governmental activities in the statement of activities are different because:

Capital outlays are reported as expenditures in governmental funds. However, in the statement of activities, the cost of capital assets is allocated over their estimated useful lives as depreciation expense. In the current period, these amounts are:

|  |                    |         |
|--|--------------------|---------|
| Capital outlay                                     | \$ 2,078,466       |         |
| Depreciation expense                               | <u>(1,764,961)</u> |         |
| Excess of capital outlay over depreciation expense |                    | 313,505 |

Repayment of long-term debt and borrowing of long-term debt is reported as expenditures and other financing sources in governmental funds, but the repayment reduces long-term liabilities and the borrowings increase long-term liabilities in the statement of net assets. In the current year, these amounts consist of:

|                           |           |
|---------------------------|-----------|
| Debt principal retirement | 1,656,533 |
|---------------------------|-----------|

Some items reported in the statement of activities do not require the use of current financial resources and therefore are not reported as expenditures in governmental funds. These activities consist of:

|  |               |               |
|--|---------------|---------------|
| (Increase) in accrued interest payable | (1,184)       |               |
| Decrease in accrued severance pay      | <u>94,856</u> |               |
|  |               | <u>93,672</u> |

|  |                          |
|--|--------------------------|
| <b>Change in net assets of governmental activities</b> | <b><u>\$ 342,586</u></b> |
|--|--------------------------|

See accompanying notes to financial statements.

Mason Public Schools

Fiduciary Funds

STATEMENT OF FIDUCIARY NET ASSETS

June 30, 2007

|                                    | Private<br>Purpose<br>Trust Fund | Agency<br>Fund    |
|------------------------------------|----------------------------------|-------------------|
| ASSETS                             |                                  |                   |
| Cash                               | \$ 28,534                        | \$ 228,673        |
| Investments                        | 12,000                           | -                 |
|                                    | <u>\$ 40,534</u>                 | <u>\$ 228,673</u> |
| TOTAL ASSETS                       |                                  |                   |
| LIABILITIES                        |                                  |                   |
| Accounts payable                   | \$ -                             | \$ 14,216         |
| Accrued other liabilities          | -                                | 3,936             |
| Due to individuals and agencies    | -                                | 210,521           |
|                                    | <u>-0-</u>                       | <u>\$ 228,673</u> |
| TOTAL LIABILITIES                  |                                  |                   |
| NET ASSETS                         |                                  |                   |
| Held in trust for private purposes | <u>\$ 40,534</u>                 |                   |

See accompanying notes to financial statements.

Mason Public Schools

Fiduciary Funds

STATEMENT OF CHANGES IN FIDUCIARY NET ASSETS

Year Ended June 30, 2007

|                                | Private<br>Purpose<br>Trust Fund |
|--------------------------------|----------------------------------|
| ADDITIONS                      |                                  |
| Investment earnings            | \$ 2,007                         |
| DEDUCTIONS                     |                                  |
| Scholarships awarded           | <u>6,898</u>                     |
| CHANGE IN NET ASSETS           | (4,891)                          |
| Net assets - beginning of year | <u>45,425</u>                    |
| Net assets - end of year       | <u><u>\$ 40,534</u></u>          |

See accompanying notes to financial statements.

NOTES TO FINANCIAL STATEMENTS

June 30, 2007

**NOTE A: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

The financial statements of Mason Public Schools have been prepared in conformity with accounting principles generally accepted in the United States of America (GAAP) as applied to governmental units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The District's more significant accounting policies are described below.

1. Reporting Entity

As required by accounting principles generally accepted in the United States of America; GASB Statement No. 14, *The Financial Reporting Entity* (as amended by GASB Statement No. 39); and *Statement on Michigan Governmental Accounting and Auditing No. 5*, these financial statements present the financial activities of Mason Public Schools. The District has no activities that would be classified as component units.

2. Basis of Presentation

DISTRICT-WIDE FINANCIAL STATEMENTS

The statement of net assets and the statement of activities (the district-wide statements) present information for the district as a whole. All nonfiduciary activities of the primary government are included (i.e., fiduciary fund activities are not included in the district-wide statements). Interfund activity has been eliminated in the preparation of the district-wide financial statements.

The district-wide and fiduciary fund financial statements are presented using the economic resources measurement focus, similar to that used by business enterprises or not-for-profit organizations. Because another measurement focus is used in the governmental fund financial statements, reconciliations are provided that explain the differences in detail.

The statement of activities presents the direct functional expenses of the District and the program revenues that support them. Direct expenses are specifically associated with a service, program, or department and are therefore clearly identifiable to a particular function. Program revenues are associated with specific functions and include charges to recipients of goods or services and grants and contributions that are restricted to meeting the operational or capital requirements of that function. Revenues that are not required to be presented as program revenues are general revenues. This includes all taxes, interest, and unrestricted State aid payments and shows how governmental functions are either self-financing or supported by the general revenues of the District.

FUND FINANCIAL STATEMENTS

The District uses funds to maintain its financial records during the year. A fund is defined as a fiscal and accounting entity with a self balancing set of accounts. The District utilizes governmental and fiduciary funds.

The governmental fund financial statements present the District's individual major funds and aggregated nonmajor funds. A separate column is shown for the major funds on the balance sheet and statement of revenues, expenditures, and changes in fund balances. Nonmajor funds are combined and shown in a single column. The fiduciary funds are reported by type.

All governmental funds are presented using the current financial resources measurement focus. With this measurement focus, only current assets and current liabilities generally are included on the balance sheet. Operating statements of these funds present increases (i.e., revenues and other financing sources) and decreases (i.e., expenditures and other financing uses) in net current assets.

NOTES TO FINANCIAL STATEMENTS

June 30, 2007

**NOTE A: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED**

2. Basis of Presentation - continued

The major funds of the District are:

- a. General Fund - The General Fund is used to account for money or other resources provided to the District to support the educational programs and general operations of the District.
- b. 2004 Debt Retirement - The 2004 Debt Retirement fund is used to account for financial resources used for the retirement of long-term debt of governmental funds.

3. Basis of Accounting

Basis of accounting refers to the timing under which transactions are recognized for financial reporting purposes. Governmental fund financial statements use the modified accrual basis of accounting. The district-wide and fiduciary fund financial statements are prepared using the accrual basis of accounting.

Under the accrual basis of accounting, revenue is recorded in the period in which it is earned and expenses are recorded when incurred, regardless of the timing of related cash flows. Property tax revenue is recognized in the fiscal year for which it is levied. Revenues for grants, entitlements, and donations are recognized when all eligibility requirements imposed by the provider have been met. Deferred revenue is recorded when resources are received by the District before it has legal claim to them, such as when grant monies are received prior to the incurrence of qualified expenditures.

Under the modified accrual basis of accounting, revenues are recognized when susceptible to accrual (i.e., when they become both measurable and available). "Measurable" means the amount of the transaction can be determined and "available" means collectible within the current period or soon enough thereafter to be used to pay liabilities of the current period. Revenues susceptible to accrual include property taxes, state and federal aid, and interest revenue. Other revenues are not susceptible to accrual because generally they are not measurable until received in cash. Expenditures are recorded when the related fund liability is incurred, except for principal and interest on general long-term debt which are recorded when due.

The District reports deferred revenue on its governmental funds balance sheet. Deferred revenues arise when potential revenue does not meet both the "measurable" and "available" criteria for recognition in the current period. Resources are considered available if they are collected during the current fiscal year or soon enough afterward to be used in payment of current year liabilities - defined as expected to be received within sixty days of year-end. Deferred revenues also arise when the District receives resources before it has a legal claim to them. In subsequent periods, when both revenue recognition criteria are met, the liability for deferred revenue is removed from the balance sheet and revenue is recognized.

4. Budgets and Budgetary Accounting

Budgets are adopted on a basis consistent with accounting principles generally accepted in the United States of America. Annual appropriated budgets are adopted for all required governmental fund types.

The District does not maintain a formalized encumbrance accounting system. All annual appropriations lapse at fiscal year end.

The District follows these procedures in establishing the budgetary data reflected in the financial statements:

- a. The Superintendent submits to the School Board a proposed operating budget for the fiscal year commencing on July 1. The operating budget includes proposed expenditures and the means for financing them.
- b. Public hearings are conducted to obtain taxpayer comments.



NOTES TO FINANCIAL STATEMENTS

June 30, 2007

**NOTE A: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED**

4. Budgets and Budgetary Accounting - continued

- c. Prior to July 1, the budget is legally adopted by School Board resolution pursuant to the Uniform Budgeting and Accounting Act (P.A. 621 of 1978). The Act requires that the budget be amended prior to the end of the fiscal year when necessary to adjust appropriations if it appears that revenues and other financing sources will not be in excess of original estimates. Expenditures shall not be made or incurred, unless authorized in the budget, in excess of the amounts appropriated.
- d. The budgets are legally adopted to the functional level; however, they are maintained at the object level for control purposes. Any revisions that alter the total expenditures at the functional level must be approved by the School Board.
- e. The Superintendent is authorized to transfer budgeted amounts for purposes of meeting emergency needs of the District; however, these transfers must be approved subsequently by the Board of Education.
- f. Formal budgetary integration is employed as a management control device during the year for the General fund and all Special Revenue funds.
- g. The budget, as presented, has been amended in a legally permissible manner. Two (2) supplementary appropriations were made during the year with the last approved June 11, 2007.

5. Cash, Cash Equivalents, and Investments

Cash and cash equivalents consist of checking, savings, and money market accounts, pooled investment funds, and imprest cash with an original maturity of 90 days or less. Cash equivalents are recorded at market value.

Investments consist of certificates of deposit with average maturities of greater than 90 days. Investments are recorded at market value.

6. Short-term Interfund Receivables/Payables

During the course of operations, numerous transactions occur between individual funds for goods provided or services rendered. These receivables and payables are classified as "due from other funds" and "due to other funds" on the governmental funds balance sheet.

7. Inventories

Inventories are stated at cost on a first in/first out basis. The Food Service Fund inventory consists of food and paper goods. Inventory amounts are equally offset by a fund balance reserve in the fund financial statements which indicates that they do not constitute "available spendable resources" even though they are a component of net current assets.

8. Due From Other Governmental Units

Due from other governmental units consists of various amounts owed to the District for grant programs and State Aid payments. The State of Michigan's funding stream of State Aid payments results in the final two (2) payments for the fiscal year ended June 30, 2007 to be paid in July and August 2007. Of the total amount of \$3,527,010 due from other governmental units, \$3,299,918 consists of State Aid and the remaining \$227,092 is from other governmental grants.

## NOTES TO FINANCIAL STATEMENTS

June 30, 2007

**NOTE A: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED****9. Capital Assets**

Capital assets include land, buildings, equipment, and vehicles and are recorded (net of accumulated depreciation, if applicable) in the district-wide financial statements. Capital assets are those with an initial individual cost of \$5,000 or more and an estimated useful life of more than one year. Capital assets are not recorded in the governmental funds. Instead, capital acquisition and construction are reflected as expenditures in governmental funds, and the related assets are reported in the district-wide financial statements. All purchased fixed assets are valued at cost where historical records are available and at an estimated historical cost where no historical records exist. Donated capital assets are valued at their estimated fair market value on the date received.

The cost of normal maintenance and repairs that do not add to the value of the asset or materially extend asset lives are not capitalized. Depreciation is computed using the straight-line method over the following useful lives:

|                         |               |
|-------------------------|---------------|
| Buildings and additions | 20 - 50 years |
| Equipment and furniture | 5 - 20 years  |
| Vehicles                | 8 years       |
| Other capital equipment | 10 - 40 years |

The District has no assets that would be classified as infrastructure assets.

**10. Compensated Absences**

Based on the requirements of GASB Statement No. 16, *Accounting for Compensated Absences*, the District has recorded all liabilities associated with compensated absences. Accumulated vested severance amounts and nonvested severance amounts that are probable to vest and be paid at termination are considered payable from future resources and are recorded along with the related payroll taxes as a long-term liability in the district-wide financial statements.

**11. Deferred Revenues**

The unexpended balance of various federal and/or state categorical and local grants is carried forward as deferred revenue until the period in which eligible expenditures are incurred. Other monies collected in advance, such as summer school, community education programs, summer school lunch, recreational programs, and industrial facilities taxes are also deferred. These same amounts have been shown as "unearned revenue" on the Statement of Net Assets to indicate that the revenue has not been recognized because it has not been earned.

**12. Long-term Obligations**

Long-term debt is recognized as a liability in the district-wide statements when incurred. The portion of those liabilities expected to be paid within the next year is a current liability with the remaining amounts shown as long-term.

Long-term debt is recognized as a liability of a governmental fund when due or when resources have been accumulated in a Debt Service Fund for payment early in the following year. For other long-term obligations, only that portion expected to be financed from expendable available financial resources is reported as a fund liability of a governmental fund.

**13. Property Taxes**

Property taxes levied by the District are collected by various municipalities and periodically remitted to the District. The taxes are levied as of December 1 and are due upon receipt of the billing by the taxpayer. The actual due date is February 14, after which time the bills become delinquent and penalties and interest may be assessed by the collecting entity. School District property tax revenues are recognized when levied to the extent that they result in current revenue (collected as of year-end). Amounts received subsequent to June 30 are recognized as revenue when collected.

NOTES TO FINANCIAL STATEMENTS

June 30, 2007

**NOTE A: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED**

13. Property Taxes - continued

The District levies taxes of \$17.9856 per \$1,000 of taxable valuation on nonhomestead property for general governmental services and \$4.70 per \$1,000 of taxable valuation on the total applicable taxable valuation of all property within the District for debt service. The District is also permitted to levy additional amounts for enhancement and/or debt service if voter approval is obtained.

14. State Foundation Revenue

Beginning with the fiscal year ended June 30, 1995, the State of Michigan adopted a foundation grant approach, which provides for a specific annual amount of revenue per student based on a statewide formula. Prior to the fiscal year ended June 30, 1995 the State utilized a district power equalizing approach. The foundation is funded from State and local sources. Revenues from State sources are primarily governed by the School Aid Act and the School Code of Michigan. The Michigan Department of Education administers the allocation of State funds to school districts based on information supplied by the districts. For the year ended June 30, 2007, the foundation allowance was based on the average of pupil membership counts taken in September 2006 and February 2006. The average calculation was weighted 75% for the September 2006 count and 25% for the February 2006 count.

The State portion of the foundation is provided primarily by a State education property tax millage of 6 mills and an allocated portion of State sales and other taxes. The local portion of the foundation is funded primarily by nonhomestead property taxes, which may be levied at a rate of up to 18 mills. The State revenue is recognized during the foundation period (currently the fiscal year) and is funded through nine (9) payments made during the fiscal year and two (2) payments made subsequent to year-end. The local revenue is recognized as outlined above under Property Taxes.

15. State Categorical Revenue

The District also receives revenue from the State to administer certain categorical education programs. State rules require that revenue earmarked for these programs be expended for its specific purpose. Categorical funds received which are not expended by the close of the fiscal year are recorded as deferred revenue.

16. County Special Education Revenue Allocation

The millage was collected by Ingham Intermediate School District (IISD) and the payments to the District were based on the most recent IISD budget at the time of allocation of excess revenues, after all IISD costs had been reimbursed. The allocation is paid pro rata based upon the K-12 pupil enrollment, including Special Education students enrolled at IISD, of the District compared to the total County wide enrollment. The K-12 enrollment for the District is defined as the blended official count for the State foundation grant.

17. Interfund Transactions

Interfund transactions are reported as either loans, services provided, reimbursements, or transfers. Loans are reported as interfund receivables and payables as appropriate and are subject to elimination upon consolidation. Services provided, deemed to be at market or near market rates, are treated as revenues and expenditures/expenses. Reimbursements are when one fund incurs a cost, charges the appropriate benefiting fund and reduces its related cost as a reimbursement. All other interfund transactions are treated as transfers on the governmental fund financial statements. Transfers are netted as part of the reconciliation to the district-wide financial statements.

18. Federal Programs

Federal programs are accounted for in the specific governmental funds to which they relate. The District has not integrated its Single Audit reports and financial data as part of the financial statements. The Single Audit reports and financial data will be issued under separate cover as supplementary information to the financial statements.

NOTES TO FINANCIAL STATEMENTS

June 30, 2007

**NOTE A: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED**

19. Comparative Data

Comparative data for the prior year has not been presented in the basic financial statements since their inclusion would make the statements unduly complex and difficult to read.

**NOTE B: CASH, CASH EQUIVALENTS, AND INVESTMENTS**

In accordance with Michigan Public Act 451 of 1976, Section 1223(1), as amended, the District is authorized to invest its surplus funds in the following types of investments:

1. Bonds, bills, or notes of the United States; obligations, the principal and interest of which are fully guaranteed by the United States; or obligations of the State.
2. Certificates of deposit issued by a State or National bank, savings accounts of a State or Federal savings and loan association, or certificates of deposit or share certificates of a State or Federal credit union organized and authorized to operate in this State.
3. Commercial paper rated prime at the time of purchase and maturing not more than 270 days after the date of purchase.
4. Securities issued or guaranteed by agencies or instrumentalities of the United States government.
5. United States government or Federal agency obligation repurchase agreements.
6. Bankers' acceptances issued by a bank that is a member of the Federal Depository Insurance Corporation.
7. Mutual funds composed entirely of investment vehicles that are legal for direct investment by a School District.
8. Investment pools, as authorized by the Surplus Funds Investment Pool Act, Act No. 367 of the Public Acts of 1982, being sections 129.111 to 129.118 of the Michigan Compiled Laws, composed entirely of instruments that are legal for direct investment by a School District.

Michigan Public Acts authorize school districts in Michigan to deposit in the accounts of federally insured banks, credit unions, and savings and loan associations. Deposits of the District are at federally insured banks and credit unions in the State of Michigan in the name of the School District.

Federal Deposit Insurance Corporation (FDIC), Federal Savings and Loan Insurance Corporation (FSLIC), and the National Credit Union Administration regulations provide that deposits of governmental units are to be separately insured for savings deposits and demand deposits up to \$100,000 each. Furthermore, if specific deposits are regulated by statute or bond indenture, these specific deposits are to be separately insured for the amount of \$100,000. Michigan School Code Section 1223 allows that security in the form of collateral, surety bond, or another form may be taken for the deposits or investments of a school district in a bank, savings and loan association, or credit union.

Deposits

There is custodial credit risk as it relates to deposits. In the case of deposits, this is the risk that in the event of a bank failure, the District's deposits may not be returned to it. As of June 30, 2007, the carrying amount of the District's deposits was \$976,244 and the bank balance was \$1,217,716 of which \$317,829 was covered by Federal depository insurance. The balance of \$899,887 was uninsured and uncollateralized.

Mason Public Schools

NOTES TO FINANCIAL STATEMENTS

June 30, 2007

**NOTE B: CASH, CASH EQUIVALENTS, AND INVESTMENTS - CONTINUED**

Investments

As of June 30, 2007, the carrying amounts and market values for each type of investment as reported in the cash, cash equivalents, and investments captions on the combined balance sheet are as follows:

| <u>INVESTMENT TYPE</u>                | <u>Carrying<br/>Amount</u> | <u>Market<br/>Value</u> | <u>Weighted<br/>Average<br/>Maturity</u> |
|---------------------------------------|----------------------------|-------------------------|--|
| Uncategorized pooled investment funds |                            |                         |  |
| MLAFP - Cash Management Funds         | 104,284                    | 104,284                 | N/A                                      |
| Automated Cash Management Trust II    | 28,453                     | 28,453                  | N/A                                      |
| MBIA - Michigan Class                 | <u>2,569,921</u>           | <u>2,569,921</u>        | N/A                                      |
|                                       | <u>\$ 2,702,658</u>        | <u>\$ 2,702,658</u>     |  |

Credit risk

State law limits investments in certain types of investments to a prime or better rating issued by nationally recognized statistical rating organizations (NRSRO's). As of June 30, 2007, the District's investments in the uncategorized pooled investments were rated AAA by Standard and Poor's, except for the MBIA - Michigan Class which is not rated.

Interest rate risk

The District has not adopted a policy that indicates how the District will minimize interest rate risk, which is the risk that the market value of securities in the portfolio will fall due to changes in market interest rates, by limiting the weighted average maturity of its investment portfolio to less than a given period of time.

Concentration of credit risk

The District has not adopted a policy that indicates how the District will minimize concentration of credit risk, which is the risk of loss attributed to the magnitude of the District's investment in a single issuer, by diversifying the investment portfolio so that the impact of potential losses from any one type of security or issuer will be minimized.

Custodial credit risk

The District has not adopted a policy that indicates how the District will minimize custodial credit risk, which is the risk that in the event of the failure of the counterparty, the District will not be able to recover the value of its investments of collateral securities that are in possession of an outside party.

As of June 30, 2007, the District's deposits and investments were reported in the financial statements in the following categories:

|                           | <u>Governmental<br/>Activities</u> | <u>Fiduciary<br/>Funds</u> | <u>Total</u>        |
|---------------------------|------------------------------------|----------------------------|---------------------|
| Cash and cash equivalents | \$ 2,256,135                       | \$ 257,207                 | \$ 2,513,342        |
| Investments               | <u>1,154,468</u>                   | <u>12,000</u>              | <u>1,166,468</u>    |
|                           | <u>\$ 3,410,603</u>                | <u>\$ 269,207</u>          | <u>\$ 3,679,810</u> |

Mason Public Schools

NOTES TO FINANCIAL STATEMENTS

June 30, 2007

**NOTE B: CASH, CASH EQUIVALENTS, AND INVESTMENTS - CONTINUED**

The District had \$908 of cash on hand.

Due to significantly higher cash flow at certain periods during the year, the amount the District held as cash, cash equivalents, and investments increased significantly. As a result, the amount of uninsured and uncollateralized cash, cash equivalents, and investments were substantially higher at these peak periods than at year-end.

**NOTE C: CAPITAL ASSETS**

Capital asset activity for the year ended June 30, 2007 was as follows:

|   | Balance<br>July 1, 2006 | Additions            | Deletions           | Balance<br>June 30, 2007 |
|---|-------------------------|----------------------|---------------------|--------------------------|
| Governmental activities                       |                         |                      |                     |                          |
| Capital assets not being depreciated          |                         |                      |                     |                          |
| Land  | \$ 175,551              | \$ -                 | \$ -                | \$ 175,551               |
| Construction in progress                      | <u>10,092,586</u>       | <u>1,631,777</u>     | <u>-</u>            | <u>11,724,363</u>        |
| Total capital assets<br>not being depreciated | 10,268,137              | 1,631,777            | -0-                 | 11,899,914               |
| Capital assets being depreciated              |                         |                      |                     |                          |
| Buildings and additions                       | 41,867,194              | 279,295              | -                   | 42,146,489               |
| Equipment and furniture                       | 11,985,490              | 36,597               | ( 38,808 )          | 11,983,279               |
| Vehicles                                      | 1,697,592               | 125,619              | ( 259,182 )         | 1,564,029                |
| Other capital equipment                       | <u>809,713</u>          | <u>5,178</u>         | <u>( 15,000 )</u>   | <u>799,891</u>           |
| Subtotal capital assets<br>being depreciated  | 56,359,989              | 446,689              | ( 312,990 )         | 56,493,688               |
| Less accumulated depreciation for:            |                         |                      |                     |                          |
| Buildings and additions                       | ( 14,723,185 )          | ( 877,537 )          | -                   | ( 15,600,722 )           |
| Equipment and furniture                       | ( 6,902,615 )           | ( 723,004 )          | 38,808              | ( 7,586,811 )            |
| Vehicles                                      | ( 1,164,514 )           | ( 139,913 )          | 249,549             | ( 1,054,878 )            |
| Other capital equipment                       | <u>( 672,223 )</u>      | <u>( 14,874 )</u>    | <u>15,000</u>       | <u>( 672,097 )</u>       |
| Subtotal                                      | <u>( 23,462,537 )</u>   | <u>( 1,755,328 )</u> | <u>303,357</u>      | <u>( 24,914,508 )</u>    |
| Net capital assets<br>being depreciated       | <u>32,897,452</u>       | <u>( 1,308,639 )</u> | <u>( 9,633 )</u>    | <u>31,579,180</u>        |
| Capital assets, net                           | <u>\$ 43,165,589</u>    | <u>\$ 323,138</u>    | <u>\$ ( 9,633 )</u> | <u>\$ 43,479,094</u>     |

The current year depreciation expense of \$1,755,328 has been adjusted by \$9,633 for the disposal of capital assets during the year in accordance with GASB Statement No. 34 implementation guide which states that immaterial losses be handled as an adjustment to the current period's depreciation expense.

Total depreciation expense of \$1,764,961 was not allocated to governmental functions. It appears on the statement of activities as "unallocated".

Mason Public Schools

NOTES TO FINANCIAL STATEMENTS

June 30, 2007

**NOTE D: LONG-TERM DEBT**

The following is a summary of changes in long-term debt obligations of the District for the year ended June 30, 2007.

|  | Balance<br>July 1, 2006 | Additions        | Deletions           | Balance<br>June 30, 2007 | Amounts<br>Due Within<br>One Year |
|--|-------------------------|------------------|---------------------|--------------------------|-----------------------------------|
| 1998 Durant Resolution Bonds                   | \$ 366,724              | \$ -             | \$ -                | \$ 366,724               | \$ -                              |
| Capital lease                                  | 130,533                 | -                | 29,554              | 100,979                  | 29,554                            |
| Installment loan - 2005                        | 92,448                  | -                | 36,979              | 55,469                   | 36,980                            |
| 2004 Refunding and General<br>Obligation Bonds | 28,225,000              | -                | 1,460,000           | 26,765,000               | 1,510,000                         |
| 2004 School Improvement Bonds                  | 1,375,000               | -                | 130,000             | 1,245,000                | 135,000                           |
| Severance pay                                  | 943,170                 | 66,709           | 161,565             | 848,314                  | 90,000                            |
|  | <u>\$31,132,875</u>     | <u>\$ 66,709</u> | <u>\$ 1,818,098</u> | <u>\$29,381,486</u>      | <u>\$ 1,801,534</u>               |

Significant details regarding outstanding long-term debt (including current portions) are presented below:

Advanced Refunding - Prior

The District defeased the 1995 School Building and Site General Obligation Bonds, which are due and payable May 1, 2006 through May 1, 2021. This was accomplished by establishing an irrevocable trust with an escrow agent composed of cash and U.S. Government Securities sufficient to meet the applicable principal and interest payments. The District issued 2004 Refunding and General Obligation Bonds in the amount of \$29,555,000 to fund escrow amounts, pay the cost of issuance of the refunding bonds, and to pay the remaining balances of the 1995 School Building and Site General Obligation Bonds. Accordingly, the trust account assets and liabilities for the defeased bond are not included in the District's financial statements. At June 30, 2007, bonds due and payable through May 1, 2021 for 1995 School Building and Site General Obligation Bonds in the amount of \$16,875,000 are considered defeased.

General Obligation Bonds - The District has issued bonds to finance the acquisition, new construction, and remodeling of existing school facilities. The following summarizes significant details of the bonds payable outstanding at June 30, 2007:

|  |                      |
|--|----------------------|
| \$1,500,000 School Improvement Bonds dated September 1, 2004, due in annual installments ranging from \$130,000 to \$180,000 through May 1, 2015 with interest ranging from 3.00 to 3.80 percent, payable semi-annually.               | \$ 1,245,000         |
| \$29,555,000 Refunding and General Obligation Bonds dated August 3, 2004, due in annual installments ranging from \$750,000 to \$2,000,000 through May 1, 2024 with interest ranging from 3.00 to 5.25 percent, payable semi-annually. | <u>26,765,000</u>    |
|  | <u>\$ 28,010,000</u> |

Resolution Bonds

|   |                   |
|---|-------------------|
| \$621,081 1998 Durant Resolution Bonds dated November 15, 1998 has been revised as of May 10, 2007. It is due in annual installments from \$34,565 to \$216,388, with interest of 4.7615353 percent, payable annually starting from 2009 to 2013. The annual debt service payments related to these bonds is paid through an annual appropriation from the State of Michigan. | <u>\$ 366,724</u> |
|---|-------------------|

Mason Public Schools

NOTES TO FINANCIAL STATEMENTS

June 30, 2007

**NOTE D: LONG-TERM DEBT - CONTINUED**

Installment Loan

\$147,918 Installment Purchase Agreement dated July 27, 2004, due in semi-annual installments of \$18,490 through July 22, 2008 with interest at 3.59 percent, payable semi-annually.

\$ 55,469

Capital Lease

The District has entered into a lease purchase agreement, to purchase equipment with a cost of \$206,881, which qualifies as a capital lease for accounting purposes (title transfers to District) and therefore has been recorded at the present value of future minimum lease payments as of the date of inception. The following are additional details regarding the lease.

\$206,881 Technology Infrastructure capital lease payable dated October 22, 2003, due in monthly installments of \$2,913 through December 11, 2010 with interest of 4.90 percent, payable monthly.

\$ 100,979

Annual Requirements for Bonded Debt, Installment Loans, and Capital Lease

The annual requirements to pay the debt principal and interest outstanding for the Long-Term Debt are as follows:

| Year Ending<br>June 30, | <u>Durant Resolution Bonds</u> |                   | <u>General Obligation Bonds</u> |                     | <u>Installment Loans</u> |                 |
|-------------------------|--------------------------------|-------------------|---------------------------------|---------------------|--------------------------|-----------------|
|                         | <u>Principal</u>               | <u>Interest</u>   | <u>Principal</u>                | <u>Interest</u>     | <u>Principal</u>         | <u>Interest</u> |
| 2008                    | \$ -                           | \$ -              | \$ 1,645,000                    | \$ 1,259,784        | \$ 36,980                | \$ 1,659        |
| 2009                    | 34,565                         | 9,050             | 1,695,000                       | 1,210,434           | 18,489                   | 332             |
| 2010                    | 36,209                         | 7,404             | 1,720,000                       | 1,155,557           | -                        | -               |
| 2011                    | 37,934                         | 5,680             | 1,775,000                       | 1,095,938           | -                        | -               |
| 2012                    | 216,387                        | 76,649            | 1,835,000                       | 1,026,137           | -                        | -               |
| 2013-2017               | 41,629                         | 1,982             | 9,365,000                       | 3,953,287           | -                        | -               |
| 2018-2022               | -                              | -                 | 8,475,000                       | 1,567,563           | -                        | -               |
| 2023-2024               | -                              | -                 | 1,500,000                       | 112,500             | -                        | -               |
|                         | <u>\$ 366,724</u>              | <u>\$ 100,765</u> | <u>\$28,010,000</u>             | <u>\$11,381,200</u> | <u>\$ 55,469</u>         | <u>\$ 1,991</u> |

Capital Lease

| Year Ending<br>June 30, | <u>Principal</u>  | <u>Interest</u>  |
|-------------------------|-------------------|------------------|
| 2008                    | 29,554            | 5,400            |
| 2009                    | 29,554            | 5,400            |
| 2010                    | 29,554            | 5,400            |
| 2011                    | <u>12,317</u>     | <u>2,251</u>     |
|                         | <u>\$ 100,979</u> | <u>\$ 18,451</u> |

The Durant Resolution Bonds referred to above are bonds whose future debt service payments by the District are contingent on an annual State of Michigan appropriation. This is the only revenue source for making the annual debt service payments on these bonds. If the legislature of the State of Michigan fails to appropriate the funds, in any particular year, the District is under no obligation for payment of that year's debt obligation. The State of Michigan has suspended payments on these bonds until May 15, 2009. It appears this suspension will have no financial impact on Mason Public Schools in the future.



Mason Public Schools

NOTES TO FINANCIAL STATEMENTS

June 30, 2007

**NOTE D: LONG-TERM DEBT - CONTINUED**

Severance Pay

In recognition of services to the District, a severance payment is made to eligible employees with at least five (5) or ten (10) years of service according to their respective employment contracts.

A summary of the calculated amounts of accrued severance pay and related payroll taxes as of June 30, 2007, which has been recorded in the District-wide financial statements, is as follows:

|               |                   |
|---------------|-------------------|
| Severance pay | \$ 829,555        |
| Payroll taxes | <u>18,759</u>     |
|               | <u>\$ 848,314</u> |

**NOTE E: INTERFUND RECEIVABLES AND PAYABLES**

The amount of interfund receivables and payables at June 30, 2007 are as follows:

|  |              |
|--|--------------|
| Due to Nonmajor governmental funds from: |              |
| General Fund                             | <u>\$ 20</u> |

Amounts appearing as interfund payables and receivables arise from two types of transactions. One type of transaction is where a fund will pay for a good or service that at least a portion of the benefit belongs to another fund. The second type of transaction is where one fund provides a good or service to another fund. Balances at the end of the year are for transfers that have not cleared as of the balance sheet date.

**NOTE F: INTERFUND TRANSFERS**

Permanent reallocation of resources between funds of the reporting entity is classified as interfund transfers. For the purpose of the statement of activities, all interfund transfers between individual governmental funds have been eliminated.

|  |                   |
|--|-------------------|
| Transfers to General Fund from:                |                   |
| Nonmajor governmental funds                    | \$ 28,000         |
| Transfers to nonmajor governmental funds from: |                   |
| General Fund                                   | <u>658,697</u>    |
|  | <u>\$ 686,697</u> |

**NOTE G: EMPLOYEE RETIREMENT SYSTEM**

All of the District's employees, except students, are eligible to participate in the State wide Michigan Public School Employees' Retirement System (MPERS), a multiple-employer, cost-sharing, State wide public employee retirement system. The MPERS issues a publicly available financial report that includes financial statements and required supplementary information for the Plan. The report for the fiscal year-end September 30, 2005, the last year available, may be obtained by contacting the State of Michigan Department of Management and Budget.

The payroll for employees covered by the MPERS for the year ended June 30, 2007 was \$15,884,239 of which \$11,710,003 was for members who have elected the MIP option; the District's total payroll was \$16,390,307.

Mason Public Schools

NOTES TO FINANCIAL STATEMENTS

June 30, 2007

**NOTE G: EMPLOYEE RETIREMENT SYSTEM - CONTINUED**

Effective January 1, 1987, Act 91 of the Public Acts of 1985 established a voluntary contribution to the Member Investment Plan (MIP). Employees first hired before January 1, 1990, made a one-time irrevocable election to contribute to the tax deferred MIP. For a limited period ended January 1, 1993, an active Basic Plan member may have enrolled in MIP by repaying the contributions and interest that would have been made had MIP enrollment occurred initially prior to January 1, 1990. Employees first hired on or after January 1, 1990, will automatically be included in MIP.

Members in MIP may retire at any age after attaining thirty years of credited service, or at age sixty while still working with a minimum total of five (5) years of credited service, with credited service in each of the five (5) school fiscal years immediately preceding the retirement allowance effective date. The retirement allowance is calculated using a formula of 1.5% of the member's final average compensation multiplied by the total number of years of credited service.

Employees who did not elect the MIP option fall under the MPSERS Basic Plan and may retire after attaining age sixty with ten (10) or more years of credited service; or attaining age fifty-five with thirty or more years of credited service; or attaining age fifty-five while still working with at least fifteen (15) but fewer than thirty years of credited service, and performed service credit in each of the five (5) school fiscal years immediately preceding the retirement allowance effective date. The retirement allowance is computed using a formula of 1.5% of the average of the highest total earnings during a period of sixty consecutive months (five (5) years) multiplied by the total years to the nearest tenth of a year of credited service.

The MPSERS also provides death and disability benefits and health and medical, dental, vision and hearing insurance coverage. Benefits are established by State statute.

Employees who selected MIP on or before December 31, 1989, contributed 4% from January 1, 1987 to December 31, 1989 and 3.9% thereafter. Employees first hired on or after January 1, 1990, are required to contribute based on a graduated rate: 3% of the first \$5,000; 3.6% of \$5,001 through \$15,000; 4.3% of all wages over \$15,000.

For the period of July 1, 2006 to September 30, 2006, the District was required by State statute to contribute 16.34% of covered compensation for all wages to the Plan. For the period of October 1, 2006 to June 30, 2007 the District was required by State statute to contribute 17.74% of covered compensation for all wages to the Plan. The total amount contributed to the Plan for the year ended June 30, 2007, and the previous two (2) years is as follows:

| <u>June 30,</u> | <u>MIP<br/>Contributions</u> | <u>District<br/>Contributions</u> | <u>Total<br/>Contributions</u> |
|-----------------|------------------------------|-----------------------------------|--------------------------------|
| 2007            | \$ 456,011                   | \$ 2,774,898                      | \$ 3,230,909                   |
| 2006            | 460,370                      | 2,640,732                         | 3,101,102                      |
| 2005            | 423,326                      | 2,225,683                         | 2,649,009                      |

The following represents contributions as a percentage of the applicable covered payroll for the current and preceding two (2) years:

| <u>June 30,</u> | <u>MIP<br/>Contributions</u> | <u>District<br/>Contributions</u> |
|-----------------|------------------------------|-----------------------------------|
| 2007            | 4.0 %                        | 17.5 %                            |
| 2006            | 3.9                          | 16.1                              |
| 2005            | 4.0                          | 14.4                              |

Mason Public Schools

NOTES TO FINANCIAL STATEMENTS

June 30, 2007

**NOTE H: FUND BALANCE RESERVES AND DESIGNATIONS**

Reserved fund balance is used to earmark a portion of fund balance to indicate that it is not appropriate for expenditures or has been legally segregated for a specific future use. Designated fund balance indicates that portion of fund balance that the District has set aside for specific purposes.

The following are the various fund balance reserves as of June 30, 2007:

|                                       |                     |
|---------------------------------------|---------------------|
| General Fund                          |                     |
| Reserved for inventories and prepaids | \$ 134,355          |
| 2004 Debt Retirement                  |                     |
| Reserved for debt service             | 1,101,365           |
| Nonmajor governmental funds           |                     |
| Reserved for inventories and prepaids | 13,952              |
| Reserved for debt service             | <u>31</u>           |
|                                       | <u>\$ 1,249,703</u> |

The following are the fund balance designations as of June 30, 2007:

|   |                   |
|---|-------------------|
| Nonmajor governmental funds                   |                   |
| Designated for capital projects               | \$ 150,195        |
| Designated for subsequent year's expenditures | 35,965            |
| General Fund                                  |                   |
| Designated for debt service                   | 156,448           |
| Designated for subsequent year's expenditures | <u>429,014</u>    |
|   | <u>\$ 771,622</u> |

**NOTE I: RESTRICTED NET ASSETS**

Restrictions of net assets shown in the district-wide financial statements indicate that restrictions imposed by the funding source or some other outside source which precludes their use for unrestricted purposes. The following are the net asset restrictions as of June 30, 2007:

|                                 |                   |
|---------------------------------|-------------------|
| Governmental activities         |                   |
| Restricted for debt service     | <u>\$ 827,944</u> |
| Restricted for capital projects | <u>\$ 118,520</u> |

**NOTE J: EXCESS OF EXPENDITURES OVER APPROPRIATIONS**

Michigan Public Act 621 of 1978, Section 18 and 19, as amended, provides that a local governmental unit not incur expenditures in excess of the amount appropriated.

The District's budgeted expenditures in the General Fund has been adopted at the functional classification level and at the fund level for the Special Revenue Funds.

Mason Public Schools

NOTES TO FINANCIAL STATEMENTS

June 30, 2007

**NOTE J: EXCESS OF EXPENDITURES OVER APPROPRIATIONS - CONTINUED**

During the year ended June 30, 2007, the District incurred expenditures in excess of the amounts appropriated as follows:

|                             | <u>Amounts<br/>Appropriated</u> | <u>Amounts<br/>Expended</u> | <u>Variance</u> |
|-----------------------------|---------------------------------|-----------------------------|-----------------|
| General Fund                |                                 |                             |                 |
| Operations and maintenance  | \$ 2,703,953                    | \$ 2,849,921                | \$ 145,968      |
| Other supporting services   | 726,981                         | 730,942                     | 3,961           |
| Community recreation        | 97,520                          | 97,599                      | 79              |
| Transfers to other funds    | 648,408                         | 658,697                     | 10,289          |
| Payments to other districts | -                               | 3,304                       | 3,304           |
| Food Service                | 1,288,877                       | 1,320,345                   | 31,468          |
| Athletics                   | 775,413                         | 790,777                     | 15,364          |

**NOTE K: FLEXIBLE BENEFITS PLAN**

In May 2002, the District approved by Board action to implement a flexible benefits cafeteria plan established under Section 125 of the Internal Revenue Code. The Plan, available to all employees, permits them to receive cash in lieu of medical benefits. The Plan provides employees with the opportunity to choose among benefits consisting of cash or benefits.

The Plan is administered by a third party administrator.

**NOTE L: RISK MANAGEMENT**

The District participates in a pool, the MASB-SEG Property and Casualty Pool with other school districts for property, fleet, liability, in-land marine, equipment breakdown, builder's risk, employee dishonesty, crime, and errors and omissions. The pool is organized under Public Act 138 of 1982, as amended as a governmental group property and casualty self insurance pool. In the event the pool's claims and expenses for a policy year exceed the total normal annual premiums for said years, all members of the specific pool's policy year may be subject to special assessment to make up the deficiency. The District has not been informed of any special assessments being required.

The District also participates in a pool, the SEG Self-Insured Workers' Disability Compensation Fund, with other school districts for workers' compensation losses. The pool is organized under Public Act 317 of 1969, as amended. In the event the pool's claims and expenses for a policy year exceed the total normal annual premiums for said years, all members of the specific pool's policy year may be subject to special assessment to make up the deficiency. The District has not been informed of any special assessments being required.

**NOTE M: SPECIAL EDUCATION UNDERFUNDING SETTLEMENT**

Prior to the current year the Durant vs. State of Michigan case was settled and the State was required to reimburse each plaintiff and nonplaintiff District an agreed upon amount for past underfunding of special education. Mason Public Schools, a nonplaintiff District, was awarded \$1,242,162 in the settlement. The funds are being paid as follows:

- a. One-half is being paid over the next ten (10) years, which began November 15, 1998. The restrictions on use of these funds are detailed within State School Aid Act, Section 11F(6). These funds are recorded within the General Fund as categorical State Aid. At the end of the current year all these funds had been expended.

## NOTES TO FINANCIAL STATEMENTS

June 30, 2007

**NOTE M: SPECIAL EDUCATION UNDERFUNDING SETTLEMENT - CONTINUED**

- b. One-half is being paid over the next fifteen (15) years, which began May 15, 1999. The District borrowed this portion of the settlement amount through the Michigan Municipal Bond Authority on November 15, 1998. These funds were recorded as bond proceeds in the Capital Projects Fund. The bond proceeds may be used for any purpose specified in Section 1351 (a) of the Revised School Code. The debt service payments for these bonds are to be made through an annual legislative appropriation. If the State of Michigan legislature fails to make the annual appropriation the District is under no obligation for the debt payments for that year. The District has pledged the annual State payments to the Michigan Municipal Bond Authority for payment of debt service.

**NOTE N: BONDED CONSTRUCTION FUNDS**

The Capital Project Funds of the District include the capital projects activities funded in part by the 2004 Refunding and General Obligation Bonds. The remaining funding for the activities recorded within the various Capital Project Funds is funded by local appropriations from the General Fund, and other local dollars (i.e., interest, etc.) For these projects recorded within the Capital Project Funds, the District has complied with the applicable provisions of Section 1351 (1) of the Revised School Code in prior and current years. The following is a summary of the revenues and expenditures in the Capital Projects Fund from the inception of the fund as it relates to the bond issues through the current fiscal year. These amounts relate to cumulative project-to-date revenues/expenditures through the period ended June 30, 2007.

|              | 2004 Capital<br>Projects |
|--------------|--------------------------|
| Revenues     | <u>\$ 31,127,911</u>     |
| Expenditures | <u>\$ 31,032,388</u>     |

Beginning with the year of bond issuance, the District has reported the annual 2004 bond capital projects related construction activity in the 2004 Bond Projects Capital Projects Fund. The projects for which the \$29,555,000 2004 Refunding and General Obligation Bonds dated August 3, 2004 was issued were considered complete on September 30, 2006 and the cumulative expenditures recognized for the construction period were \$30,546,111 as of that date.

## REQUIRED SUPPLEMENTARY INFORMATION

Mason Public Schools

General Fund

BUDGETARY COMPARISON SCHEDULE

Year Ended June 30, 2007

|   | <u>Budgeted Amounts</u> |              |               | Variance with<br>Final Budget<br>Positive<br>(Negative) |
|---|-------------------------|--------------|---------------|---|
|   | <u>Original</u>         | <u>Final</u> | <u>Actual</u> |   |
| REVENUES                                      |                         |              |               |   |
| Local sources                                 | \$ 3,636,446            | \$ 3,765,359 | \$ 3,832,959  | \$ 67,600   |
| State sources                                 | 19,766,246              | 19,763,959   | 19,757,705    | (6,254)   |
| Federal sources                               | 581,454                 | 662,870      | 650,465       | (12,405)  |
|   | 23,984,146              | 24,192,188   | 24,241,129    | 48,941  |
| OTHER FINANCING SOURCES                       |                         |              |               |   |
| Transfers from other funds                    | 28,000                  | 28,000       | 28,000        | -0-   |
| County special education allocation           | 1,809,735               | 1,847,014    | 1,810,380     | (36,634)  |
| Payments from other districts                 | 23,329                  | 19,733       | 23,258        | 3,525   |
| Other transactions                            | 22,927                  | 29,240       | 29,946        | 706   |
| TOTAL REVENUES AND OTHER<br>FINANCING SOURCES | 25,868,137              | 26,116,175   | 26,132,713    | 16,538  |
| EXPENDITURES                                  |                         |              |               |   |
| Current                                       |                         |              |               |   |
| Instruction                                   |                         |              |               |   |
| Basic programs                                | 12,615,468              | 12,564,208   | 12,517,587    | 46,621  |
| Added needs                                   | 2,719,885               | 2,666,773    | 2,655,058     | 11,715  |
| Total instruction                             | 15,335,353              | 15,230,981   | 15,172,645    | 58,336  |
| Supporting services                           |                         |              |               |   |
| Student services                              | 1,922,943               | 1,998,338    | 1,996,006     | 2,332   |
| Instructional staff                           | 977,772                 | 998,818      | 967,230       | 31,588  |
| General administration                        | 324,155                 | 314,772      | 301,962       | 12,810  |
| School administration                         | 1,630,298               | 1,642,486    | 1,630,069     | 12,417  |
| Business and fiscal services                  | 323,648                 | 329,037      | 324,662       | 4,375   |
| Operations and maintenance                    | 2,599,943               | 2,703,953    | 2,849,921     | (145,968)   |
| Transportation                                | 1,188,549               | 1,171,016    | 1,122,040     | 48,976  |
| Other supporting services                     | 711,080                 | 726,981      | 730,942       | (3,961)   |
| Total supporting services                     | 9,678,388               | 9,885,401    | 9,922,832     | (37,431)  |
| Community services                            |                         |              |               |   |
| Community recreation                          | 61,950                  | 97,520       | 97,599        | (79)  |
| Childcare                                     | 155,954                 | 122,094      | 116,844       | 5,250   |
| Community services office                     | 153,570                 | 152,953      | 150,923       | 2,030   |
| Total community services                      | 371,474                 | 372,567      | 365,366       | 7,201   |

Mason Public Schools

General Fund

BUDGETARY COMPARISON SCHEDULE - CONTINUED

Year Ended June 30, 2007

|  | <u>Budgeted Amounts</u> |                     |                     | Variance with<br>Final Budget<br>Positive<br>(Negative) |
|--|-------------------------|---------------------|---------------------|---|
|  | <u>Original</u>         | <u>Final</u>        | <u>Actual</u>       |   |
| EXPENDITURES - CONTINUED                       |                         |                     |                     |   |
| Debt service                                   | <u>\$ 66,534</u>        | <u>\$ 74,932</u>    | <u>\$ 74,932</u>    | <u>\$ -0-</u>   |
| TOTAL EXPENDITURES                             | 25,451,749              | 25,563,881          | 25,535,775          | 28,106  |
| OTHER FINANCING USES                           |                         |                     |                     |   |
| Transfers to other funds                       | 740,408                 | 648,408             | 658,697             | (10,289)  |
| Payments to other districts                    | <u>-</u>                | <u>-</u>            | <u>3,304</u>        | <u>(3,304)</u>  |
| TOTAL OTHER FINANCING USES                     | <u>740,408</u>          | <u>648,408</u>      | <u>662,001</u>      | <u>(13,593)</u>   |
| TOTAL EXPENDITURES AND<br>OTHER FINANCING USES | <u>26,192,157</u>       | <u>26,212,289</u>   | <u>26,197,776</u>   | <u>14,513</u>   |
| NET CHANGE IN FUND BALANCE                     | (324,020)               | (96,114)            | (65,063)            | 31,051  |
| Fund balance, beginning of year                | <u>3,373,275</u>        | <u>3,373,275</u>    | <u>3,373,275</u>    | <u>-0-</u>  |
| Fund balance, end of year                      | <u>\$ 3,049,255</u>     | <u>\$ 3,277,161</u> | <u>\$ 3,308,212</u> | <u>\$ 31,051</u>  |



## **OTHER SUPPLEMENTARY INFORMATION**

Mason Public Schools

Nonmajor Governmental Funds

COMBINING BALANCE SHEET

June 30, 2007

|  | Special Revenue Funds |                  | Debt Service Fund             |
|--|-----------------------|------------------|-------------------------------|
|  | Food<br>Service       | Athletics        | 2004<br>School<br>Improvement |
| <b>ASSETS</b>                                  |                       |                  |                               |
| Cash and cash equivalents                      | \$ 68,498             | \$ 23,352        | \$ 31                         |
| Investments                                    | -                     | -                | -                             |
| Due from other funds                           | -                     | -                | -                             |
| Due from other governmental units              | 10,098                | -                | -                             |
| Inventories                                    | 13,952                | -                | -                             |
| <b>TOTAL ASSETS</b>                            | <b>\$ 92,548</b>      | <b>\$ 23,352</b> | <b>\$ 31</b>                  |
| <b>LIABILITIES AND FUND BALANCES</b>           |                       |                  |                               |
| <b>LIABILITIES</b>                             |                       |                  |                               |
| Accounts payable                               | \$ -                  | \$ 341           | \$ -                          |
| Accrued payroll                                | 4,914                 | 6,287            | -                             |
| Other accrued liabilities                      | 1,749                 | 3,956            | -                             |
| Deferred revenue                               | 8,746                 | -                | -                             |
| <b>TOTAL LIABILITIES</b>                       | <b>15,409</b>         | <b>10,584</b>    | <b>-0-</b>                    |
| <b>FUND BALANCES</b>                           |                       |                  |                               |
| Reserved for                                   |                       |                  |                               |
| Inventories                                    | 13,952                | -                | -                             |
| Debt service                                   | -                     | -                | 31                            |
| Unreserved                                     |                       |                  |                               |
| Designated for                                 |                       |                  |                               |
| Capital projects                               | -                     | -                | -                             |
| Subsequent year's expenditures                 | 35,965                | -                | -                             |
| Undesignated, reported in                      |                       |                  |                               |
| Special revenue funds                          | 27,222                | 12,768           | -                             |
| <b>TOTAL FUND BALANCES</b>                     | <b>77,139</b>         | <b>12,768</b>    | <b>31</b>                     |
| <b>TOTAL LIABILITIES<br/>AND FUND BALANCES</b> | <b>\$ 92,548</b>      | <b>\$ 23,352</b> | <b>\$ 31</b>                  |

Capital Project Funds

| Capital Project  | 2004 Capital Projects | 2004 School Improvement | Total             |
|------------------|-----------------------|-------------------------|-------------------|
| \$ 31,675        | \$ -                  | \$ 22,997               | \$ 146,553        |
| -                | 104,284               | -                       | 104,284           |
| -                | 20                    | -                       | 20                |
| -                | -                     | -                       | 10,098            |
| -                | -                     | -                       | 13,952            |
| <u>\$ 31,675</u> | <u>\$ 104,304</u>     | <u>\$ 22,997</u>        | <u>\$ 274,907</u> |
| \$ -             | \$ 8,781              | \$ -                    | \$ 9,122          |
| -                | -                     | -                       | 11,201            |
| -                | -                     | -                       | 5,705             |
| -                | -                     | -                       | 8,746             |
| -0-              | 8,781                 | -0-                     | 34,774            |
| -                | -                     | -                       | 13,952            |
| -                | -                     | -                       | 31                |
| 31,675           | 95,523                | 22,997                  | 150,195           |
| -                | -                     | -                       | 35,965            |
| -                | -                     | -                       | 39,990            |
| <u>31,675</u>    | <u>95,523</u>         | <u>22,997</u>           | <u>240,133</u>    |
| <u>\$ 31,675</u> | <u>\$ 104,304</u>     | <u>\$ 22,997</u>        | <u>\$ 274,907</u> |

Mason Public Schools

Nonmajor Governmental Funds

COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN  
FUND BALANCES

Year Ended June 30, 2007

|  | Special Revenue Funds |            | Debt Service Fund             |
|--|-----------------------|------------|-------------------------------|
|  | Food<br>Service       | Athletics  | 2004<br>School<br>Improvement |
| REVENUES                                       |                       |            |                               |
| Local sources                                  | \$ 963,709            | \$ 303,465 | \$ -                          |
| State sources                                  | 67,860                | -          | -                             |
| Federal sources                                | 313,268               | -          | -                             |
| OTHER FINANCING SOURCES                        |                       |            |                               |
| Transfers from other funds                     | -                     | 482,609    | 176,088                       |
| TOTAL REVENUES AND OTHER<br>FINANCING SOURCES  | 1,344,837             | 786,074    | 176,088                       |
| EXPENDITURES                                   |                       |            |                               |
| Current  |                       |            |                               |
| Food service                                   | 1,320,345             | -          | -                             |
| Athletics                                      | -                     | 790,777    | -                             |
| Debt service                                   | -                     | -          | 176,088                       |
| Capital outlay                                 | -                     | -          | -                             |
| OTHER FINANCING USES                           |                       |            |                               |
| Transfers to other funds                       | 28,000                | -          | -                             |
| TOTAL EXPENDITURES AND<br>OTHER FINANCING USES | 1,348,345             | 790,777    | 176,088                       |
| NET CHANGE IN FUND BALANCES                    | (3,508)               | (4,703)    | -0-                           |
| Fund balances, beginning of year               | 80,647                | 17,471     | 31                            |
| Fund balances, end of year                     | \$ 77,139             | \$ 12,768  | \$ 31                         |

Capital Project Funds

| Capital Project | 2004 Capital Projects | 2004 School Improvement | Total        |
|-----------------|-----------------------|-------------------------|--------------|
| \$ 4,225        | \$ 77,499             | \$ 1,102                | \$ 1,350,000 |
| -               | -                     | -                       | 67,860       |
| -               | -                     | -                       | 313,268      |
| -               | -                     | -                       | 658,697      |
| 4,225           | 77,499                | 1,102                   | 2,389,825    |
| -               | -                     | -                       | 1,320,345    |
| -               | -                     | -                       | 790,777      |
| -               | -                     | -                       | 176,088      |
| 282,356         | 1,631,776             | 17,968                  | 1,932,100    |
| -               | -                     | -                       | 28,000       |
| 282,356         | 1,631,776             | 17,968                  | 4,247,310    |
| (278,131)       | (1,554,277)           | (16,866)                | (1,857,485)  |
| 309,806         | 1,649,800             | 39,863                  | 2,097,618    |
| \$ 31,675       | \$ 95,523             | \$ 22,997               | \$ 240,133   |

## OTHER FINANCIAL INFORMATION

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INDEPENDENT AUDITOR'S REPORT

To the Board of Education  
Mason Public Schools  
Mason, Michigan

We have audited the accompanying balance sheet and statement of revenues, expenditures and changes in fund balance of the 2004 Bond Project Capital Projects Fund, which is the fund that reported the activity of the 2004 Bond activity of Mason Public Schools as of and for the twenty-five (25) month, twenty-eight (28) day period ended September 30, 2006. These statements are the responsibility of the District's management. Our responsibility is to express an opinion on these statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

The accompanying statements were prepared for the purpose of complying with the provisions of the Michigan Revised School Code (Public Act 451 of 1976, as amended), Part 17-Bonds and Notes, Section 380.1351 (a) as described in Note N. The presentation is not intended to be a presentation of the District's total revenues and expenditures.

In our opinion, the statements referred to above presents fairly, in all material respects, the financial position of the 2004 Bond Project Capital Projects Fund, which is the fund that reported the activity of the 2004 Bond activity of Mason Public Schools as of and for the twenty-five (25) month, twenty-eight (28) day period ended September 30, 2006, in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued a report dated September 19, 2007, on our consideration of Mason Public Schools' internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

*Abraham & Gaffney, P.C.*

ABRAHAM & GAFFNEY, P.C.  
Certified Public Accountants

September 19, 2007

Mason Public Schools

Capital Projects Fund

2004 Bond Projects

BALANCE SHEET

September 30, 2006

ASSETS

|                           |    |            |
|---------------------------|----|------------|
| Cash and cash equivalents | \$ | 614,925    |
| Investments               |    | 698,771    |
| Due from other funds      |    | <u>180</u> |

|              |  |                         |
|--------------|--|-------------------------|
| TOTAL ASSETS |  | <u><u>1,313,876</u></u> |
|--------------|--|-------------------------|

LIABILITIES AND FUND BALANCE

LIABILITIES

|                                  |    |                |
|----------------------------------|----|----------------|
| Accounts payable                 | \$ | 355,007        |
| Construction contract - retainer |    | <u>395,314</u> |

|                   |  |         |
|-------------------|--|---------|
| TOTAL LIABILITIES |  | 750,321 |
|-------------------|--|---------|

FUND BALANCE

|                                 |  |                |
|---------------------------------|--|----------------|
| Designated for capital projects |  | <u>563,555</u> |
|---------------------------------|--|----------------|

|                                    |    |                         |
|------------------------------------|----|-------------------------|
| TOTAL LIABILITIES AND FUND BALANCE | \$ | <u><u>1,313,876</u></u> |
|------------------------------------|----|-------------------------|



Mason Public Schools

Capital Projects Fund

2004 Bond Projects

STATEMENT OF REVENUES, EXPENDITURES, AND  
CHANGES IN FUND BALANCE

Twenty-Five Month and Twenty-Eight Day Period Ended September 30, 2006

REVENUES

LOCAL SOURCES

|          |            |
|----------|------------|
| Interest | \$ 450,352 |
|----------|------------|

OTHER FINANCING SOURCES

|               |            |
|---------------|------------|
| Bond proceeds | 29,555,000 |
|---------------|------------|

|              |                  |
|--------------|------------------|
| Bond premium | <u>1,104,314</u> |
|--------------|------------------|

|  |            |
|--|------------|
| TOTAL REVENUES AND OTHER FINANCING SOURCES | 31,109,666 |
|--|------------|

EXPENDITURES

|                |            |
|----------------|------------|
| Capital outlay | 11,190,844 |
|----------------|------------|

|                          |            |
|--------------------------|------------|
| Transfer to escrow agent | 19,176,284 |
|--------------------------|------------|

|       |                |
|-------|----------------|
| Other | <u>178,983</u> |
|-------|----------------|

|                    |                   |
|--------------------|-------------------|
| TOTAL EXPENDITURES | <u>30,546,111</u> |
|--------------------|-------------------|

|                            |         |
|----------------------------|---------|
| NET CHANGE IN FUND BALANCE | 563,555 |
|----------------------------|---------|

|                                   |          |
|-----------------------------------|----------|
| Fund balance, beginning of period | <u>-</u> |
|-----------------------------------|----------|

|                             |                          |
|-----------------------------|--------------------------|
| Fund balance, end of period | <u><u>\$ 563,555</u></u> |
|-----------------------------|--------------------------|

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**REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON  
COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS  
PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS**

To the Board of Education  
Mason Public Schools  
Mason, Michigan

We have audited the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Mason Public Schools as of and for the year ended June 30, 2007, which collectively comprise Mason Public Schools' basic financial statements and have issued our report thereon dated September 19, 2007. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered Mason Public Schools' internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the basic financial statements, but not for the purpose of expressing an opinion on the effectiveness of Mason Public Schools' internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of Mason Public Schools' internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. However, as discussed below, we identified certain deficiencies in internal control over financial reporting that we consider to be significant deficiencies.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the District's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the District's financial statements that is more than inconsequential will not be prevented or detected by the District's internal control. We consider the deficiencies described below to be significant deficiencies in internal control over financial reporting.

**2007-1 Preparation of Financial Statements in Accordance with GAAP**

Condition: As part of the audit process, the District, as well as most governments, have historically relied on the independent auditors to assist in the preparation of the government-wide and fund financial statements, as well as the related notes to the financial statements, as part of its external financial reporting process. It is more cost effective to outsource the preparation of the annual financial statements to the independent auditors than to incur the time and expense of having the employees and/or management obtain the necessary training and expertise required to perform this task internally. Under the new auditing standards this is now a control deficiency that the District does not have the technical expertise to prepare the audited financial statements in accordance with accounting principles generally accepted in the United States of America (GAAP).

## **2007-1 Preparation of Financial Statements in Accordance with GAAP - continued**

**Criteria:** Governmental entities are required to issue financial statements that are prepared in accordance with GAAP. Responsibility for the financial statements rests with the District's management. The preparation of financial statements in accordance with GAAP requires internal controls over both (1) recording, processing, and summarizing accounting data (i.e., maintaining internal accounting records), and (2) reporting government-wide and fund financial statements, including the related note disclosures (i.e., external financial reporting).

**Effect:** The District relies, in part, on the independent auditors for assistance with the preparation of annual financial statements and related notes to the financial statements in accordance with GAAP. This reliance makes the independent auditors effectively part of the District's internal controls. By definition, independent auditors cannot be part of the District's internal controls.

**Recommendation:** We recommend the District consider providing applicable employees with training that would allow them to attain the qualifications required to fully understand the GAAP financial statement preparation process. Should the District choose not to address this issue, management and the Board should realize that an increased risk is present in not having the proper internal control over financial reporting.

**Corrective Action Response:** The Superintendent and the Director of Finance have agreed to require additional financial reporting training for those most involved in such reporting.

## **2007-2 Segregation of Duties**

**Condition:** During our consideration and assessment of fraud risk, we noted that the District may not have sufficient segregation of duties in its accounting structure. Specifically, we noted that one employee in the business office has access to all aspects of the accounts payable cycle, is responsible for maintenance of the general ledger, performs bank reconciliations, and processes ACH transactions.

**Criteria:** The intent of internal control is to assure that no one individual is able to control all aspects of a transaction cycle (i.e., receipts, disbursements, payroll, reconciling bank accounts, access to general ledger, etc.). While this is a common occurrence in many Districts due to the limited number of employees, the District should realize that a greater risk in safeguarding assets exists if duties and responsibilities are not appropriately arranged and separated.

**Effect:** Due to the limited number of employees involved in some of the District's key control activities, the District is assuming a greater risk of loss or misappropriation of assets.

**Recommendation:** We recommend that the District review various areas of operation and consider additional segregation of duties. If duties cannot be adequately segregated due to the limited number of employees, we suggest the District management provide a greater review and supervision of employee functions and procedures.

**Corrective Action Response:** The Superintendent and the Director of Finance had already, as of the date of this audit, begun a review of this issue, and have implemented some changes. More improvements are expected.

## **2007-3 Fraud Risk Management Programs**

**Condition:** During the course of our audit, it was noted that the District has not adopted a formal fraud risk management program.

**Criteria:** A fraud risk management program may involve actively searching for fraudulent transactions through the use of techniques such as data mining, but should also inform management and employees as to the nature of fraud and actions expected to be taken if fraud is suspected. This would include publishing a definition of fraud, a statement that fraud will not be tolerated within the organization, and instructions for reporting fraud within the chain of command.

**Effect:** The District is exposed to a fraud risk due to the lack of anti-fraud programs that are appropriate to the size and complexity of the financial activities.

**Recommendation:** We recommend that anti-fraud programs should be developed, formally adopted, and implemented as part of the District's internal controls.

**Corrective Action Response:** The Superintendent and the Director of Finance have agreed to research the fraud risk management program of other districts, use them as aids in creating one that fits the Mason Public Schools, and formally adopt such a plan.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the District's internal control.

Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. However, we believe that of the significant deficiencies described above, item 2007-2 is material weaknesses.

#### Compliance and Other Matters

As part of obtaining reasonable assurance about whether Mason Public Schools' financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed an instance of noncompliance or other matters that is required to be reported under *Government Auditing Standards* and which is described below.

#### **2007-4 Unfavorable Budget Variances**

Condition: During our review of the District's compliance with the budgeting act, we noted that expenditures had exceeded the amounts appropriated for various activities in the General Fund, Food Service Fund, and Athletics Fund. The District's budget was not amended as it became apparent that expenditures would exceed the amounts appropriated for various activities of the General Fund, Food Service Fund, and Athletics Fund.

Criteria: The Uniform Budgeting and Accounting Act requires the District to amend the original adopted budget "as soon as it becomes apparent that a deviation from the original general appropriations act is necessary and the amount of the deviation can be determined". The Act also states that "an administrative officer of the local unit shall not incur expenditures against an appropriation account in excess of the amount appropriated by the legislative body".

Effect: The District is not in compliance with Public Act 621 of 1978, as amended.

Recommendation: We recommend the District monitor expenditures against adopted budgets in all applicable funds and make appropriate budget amendments as needed.

Corrective Action Response: The Director of Finance will monitor each budget more closely.

#### **2007-5 Bond Audit Not Completed Within 120 Days**

Condition: During our audit for 2004 Bond Project, it was noted that the District is not in compliance with the required time period for the completion of bonded construction project audit. The audit of the bonded construction project was not completed within 120 days after completion of all projects financed by the proceeds of the bonds. The District was provided with a certificate of substantial completion on the project by the contractor, but did not notify the independent auditors within the required time frame in order for them to conduct the fieldwork within the 120 days.

Criteria: The Michigan Revised School Code (Public Act 451 of 1976, as amended), Section 388.1351(a) requires the District to have an independent audit, using generally accepted accounting principles, of its bonding activities under these sections conducted within 120 days after completion of all projects financed by the proceeds of the bonds and to submit the audit report to the Michigan Department of Treasury.

Effect: The District is not in compliance with Michigan Revised School Code.

Recommendation: We recommend the District request independent auditors to perform bond audit within the required time period when the District issues bonds in the future.

Corrective Action Response: The District agrees with the above recommendation.

Mason Public Schools' responses to the findings identified in our audit are described above. We did not audit Mason Public Schools' responses and, accordingly, we express no opinion on them.

This report is intended solely for the information and use of management, the Board of Education of Mason Public Schools, others within the District, and the Federal award agencies and is not intended to be, and should not be, used by anyone other than these specified parties.

*Abraham & Gaffney, P.C.*

ABRAHAM & GAFFNEY, P.C.  
Certified Public Accountants

September 19, 2007

**Mason Public Schools**

**SUPPLEMENTARY INFORMATION  
TO FINANCIAL STATEMENTS  
(FEDERAL AWARDS)**

**June 30, 2007**

Mason Public Schools

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REPORT ON COMPLIANCE WITH REQUIREMENTS APPLICABLE  
TO EACH MAJOR PROGRAM AND ON INTERNAL CONTROL OVER  
COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133

To the Board of Education  
Mason Public Schools  
Mason, Michigan

Compliance

We have audited the compliance of Mason Public Schools with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) Circular A-133 *Compliance Supplement* that are applicable to its major Federal program for the year ended June 30, 2007. Mason Public Schools' major Federal program is identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to its major Federal program is the responsibility of Mason Public Schools' management. Our responsibility is to express an opinion on Mason Public Schools' compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Nonprofit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major Federal program occurred. An audit includes examining, on a test basis, evidence about Mason Public Schools' compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on Mason Public Schools' compliance with those requirements.

In our opinion, Mason Public Schools complied, in all material respects, with the requirements referred to above that are applicable to its major Federal program for the year ending June 30, 2007.

Internal Control Over Compliance

The management of Mason Public Schools is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts and grants applicable to Federal programs. In planning and performing our audit, we considered Mason Public Schools' internal control over compliance with the requirements that could have a direct and material effect on a major Federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of Mason Public Schools' internal control over compliance.

A *control deficiency* in an entity's internal control over compliance exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect noncompliance with a type of compliance requirement of a Federal program on a timely basis. A *significant deficiency* is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to administer a Federal program such that there is more than a remote likelihood that noncompliance with a type of compliance requirement of a Federal program that is more than inconsequential will not be prevented or detected by the entity's internal control.



A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that material noncompliance with a type of compliance requirement of a Federal program will not be prevented or detected by the entity's internal control.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above.

#### Schedule of Expenditures of Federal Awards

We have audited the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Mason Public Schools as of and for the year ended June 30, 2007, and have issued our report thereon dated September 19, 2007. Our audit was performed for the purpose of forming opinions on the financial statements that collectively comprise Mason Public Schools' basic financial statements. The accompanying schedule of expenditures of Federal awards is presented for purposes of additional analysis as required by OMB Circular A-133 and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

This report is intended solely for the information and use of the Board of Education and management of Mason Public Schools, others within the District, the pass-through grantors, and the Federal awarding agencies and is not intended to be and should not be used by anyone other than these specified parties.

*Abraham & Gaffney, P.C.*

ABRAHAM & GAFFNEY, P.C.  
Certified Public Accountants

September 19, 2007

Mason Public Schools

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

Year Ended June 30, 2007

| Federal Grantor / Pass-Through Grantor<br>Program Title                                 | Federal<br>CFDA<br>Number | Pass-Through<br>Grantor's<br>Number | Restated<br>Program<br>or Award<br>Amount |
|---|---------------------------|-------------------------------------|---|
| <b>U.S. DEPARTMENT OF EDUCATION</b>   |                           |                                     |   |
| Passed Through State Department of Education  |                           |                                     |   |
| Title I   | 84.010                    |                                     |   |
| 2006-07 Regular - Part A  |                           | 0715300607                          | \$ 87,272                                 |
| State Plan Self Review  | 84.027 <sup>(g)</sup>     | 0604405PSR                          | 3,925                                     |
| Title V   | 84.298                    |                                     |   |
| 2006-07   |                           | 0702500607                          | 638                                       |
| Title II, Part D  | 84.318                    |                                     |   |
| 2006-07   |                           | 0742900607                          | 888                                       |
| Improving Teacher Quality   | 84.367                    |                                     |   |
| 2006-07 Title IIA   |                           | 0705200607                          | 84,057                                    |
| 2005-06 Title IIA   |                           | 0605200506                          | 84,693                                    |
|   |                           |                                     | <u>168,750</u>                            |
| Passed Through State Department of Education<br>and Ingham Intermediate School District |                           |                                     |   |
| Special Education 94-142  |                           |                                     |   |
| Flow Through - IDEA   | 84.027 <sup>(g)</sup>     |                                     |   |
| 2006-07 Regular   |                           | 0704500607                          | 384,693                                   |
| 2005-06 Regular   |                           | 0604500506                          | 419,171                                   |
|   |                           |                                     | <u>803,864</u>                            |
| Preschool - IDEA  | 84.173 <sup>(g)</sup>     |                                     |   |
| 2006-07   |                           | 0704600607                          | 17,228                                    |
| 2005-06   |                           | 0604600506                          | 17,359                                    |
|   |                           |                                     | <u>34,587</u>                             |
| <b>TOTAL U.S. DEPARTMENT OF EDUCATION</b>   |                           |                                     | <b>1,099,924</b>                          |
| <b>U.S. DEPARTMENT OF AGRICULTURE</b>   |                           |                                     |   |
| Passed Through State Department of Education  |                           |                                     |   |
| School Breakfast Program  | 10.553 <sup>(e)(f)</sup>  |                                     |   |
| 2006-07   |                           | 071970                              | 31,303                                    |
| 2005-06   |                           | 061970                              | 23,879                                    |
|   |                           |                                     | <u>55,182</u>                             |

| <u>(Memo Only)</u><br><u>Prior Years'</u><br><u>Expenditures</u> | <u>Balance</u><br><u>July 1, 2006</u><br><u>Accrued or</u><br><u>(Deferred)</u><br><u>Revenue</u> | <u>Cash</u><br><u>Receipts</u><br><u>In-Kind</u><br><u>Payments</u> | <u>Expenditures</u> | <u>Balance</u><br><u>June 30, 2007</u><br><u>Accrued or</u><br><u>(Deferred)</u><br><u>Revenue</u> |
|--|---|---|---------------------|--|
| \$ -   | \$ -  | \$ 49,314   | \$ 87,272           | \$ 37,958  |
| 3,925  | 3,925   | 3,925   | -                   | -0-  |
| -  | -   | -   | 638                 | 638  |
| -  | -   | -   | 888                 | 888  |
| -  | -   | 58,830  | 84,057              | 25,227   |
| 84,693   | 10,014  | 10,014  | -                   | -0-  |
| 84,693   | 10,014  | 68,844  | 84,057              | 25,227   |
| -  | -   | 263,898   | 384,693             | 120,795  |
| 419,171  | 48,428  | 48,428  | -                   | -0-  |
| 419,171  | 48,428  | 312,326   | 384,693             | 120,795  |
| -  | -   | 11,105  | 17,228              | 6,123  |
| 16,576   | 783   | 783   | -                   | -0-  |
| 16,576   | 783   | 11,888  | 17,228              | 6,123  |
| 524,365  | 63,150  | 446,297   | 574,776             | 191,629  |
| -  | -   | 31,303  | 31,303              | -0-  |
| 20,969   | -   | 2,910   | 2,910               | -0-  |
| 20,969   | -0-   | 34,213  | 34,213              | -0-  |

Mason Public Schools

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS - CONTINUED

Year Ended June 30, 2007

| Federal Grantor / Pass-Through Grantor<br>Program Title                                      | Federal<br>CFDA<br>Number | Pass-Through<br>Grantor's<br>Number | Restated<br>Program<br>or Award<br>Amount |
|--|---------------------------|-------------------------------------|---|
| U.S. DEPARTMENT OF AGRICULTURE - CONTINUED   |                           |                                     |   |
| Passed Through State Department of Education - continued                                     |                           |                                     |   |
| National School Lunch Program  | 10.555                    | (e)(f)                              |   |
| 2006-07  |                           | 071950, 071960                      | \$ 239,071                                |
| 2005-06  |                           | 061950, 061960                      | <u>229,362</u>                            |
|  |                           |                                     | 468,433                                   |
| Food Donation  | 10.550                    |                                     |   |
| Entitlement commodities  |                           | 33130                               | 11,732                                    |
| Bonus commodities  |                           | 33130                               | <u>118</u>                                |
|  |                           |                                     | <u>11,850</u>                             |
| TOTAL U.S. DEPARTMENT OF AGRICULTURE   |                           |                                     | 535,465                                   |
| U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICES   |                           |                                     |   |
| Passed Through State Department of Human Services<br>and Ingham Intermediate School District |                           |                                     |   |
| Medicaid Assistance Program  |                           |                                     |   |
| Title XIX  |                           |                                     |   |
| Outreach   |                           |                                     |   |
| 2006-07  | 93.778                    | 33130                               | <u>34,740</u>                             |
| TOTAL FEDERAL AWARDS   |                           |                                     | <u>\$ 1,670,129</u>                       |

| <u>(Memo Only)</u><br><u>Prior Years'</u><br><u>Expenditures</u> | <u>Balance</u><br><u>July 1, 2006</u><br><u>Accrued or</u><br><u>(Deferred)</u><br><u>Revenue</u> | <u>Cash</u><br><u>Receipts</u><br><u>In-Kind</u><br><u>Payments</u> | <u>Expenditures</u> | <u>Balance</u><br><u>June 30, 2007</u><br><u>Accrued or</u><br><u>(Deferred)</u><br><u>Revenue</u> |
|--|---|---|---------------------|--|
| \$ -   | \$ -  | \$ 239,071  | \$ 239,071          | \$ -0-   |
| 201,227  | -   | 28,135  | 28,135              | -0-  |
| 201,227  | -0-   | 267,206   | 267,206             | -0-  |
| -  | -   | 11,732  | 11,732              | -0-  |
| -  | -   | 118   | 118                 | -0-  |
| -0-  | -0-   | 11,850  | 11,850              | -0-  |
| 222,196  | -0-   | 313,269   | 313,269             | -0-  |
| -  | -   | 26,014  | 34,740              | 8,726  |
| <u>\$ 746,561</u>  | <u>\$ 63,150</u>  | <u>\$ 785,580</u>   | <u>\$ 922,785</u>   | <u>\$ 200,355</u>  |
|  |   | (d)   | (b)                 |  |

Mason Public Schools

NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

June 30, 2007

**NOTE A: BASIS OF PRESENTATION**

The accompanying Schedule of Expenditures of Federal Awards includes the Federal grant activity of Mason Public Schools and is presented on the modified accrual basis of accounting. The information in this schedule is presented in accordance with the requirements of OMB Circular A-133, *Audits of States, Local Governments, and Nonprofit Organizations*.

**NOTE B: SUMMARY OF SIGNIFICANT EXPLANATIONS OF SCHEDULE**

The following descriptions identified below as (a) through (g) represent explanations that cross reference to amounts on the Schedule of Expenditures of Federal Awards.

- (a) The current year revenues for the Food Donation Program are determined based on the 2002/03 guidance provided previously from the Michigan Department of Education Administrative Policy Number 7. The amounts reported in this schedule as commodities received were taken from the Recipient Entitlement Balance Report which is in agreement in all material respects with the District's reported amounts.
- (b) The expenditures reported in this schedule are in agreement with the amounts reported in the financial statements and financial reports except as noted below. The financial reports tested, including claims for advances and reimbursements, were materially correct, complete, accurate, and timely and contain information that is supported by the books and records from which the financial statements have been prepared.
- (c) The amount of out of conditioned commodities due to spoilage or shrinkage included in expenditures is immaterial to the Schedule of Expenditures of Federal Awards taken as a whole.
- (d) The amounts reported in this schedule as cash received are in agreement with the current payment amounts in the Grants Section Auditor's Report.
- (e) Denotes program tested as "major program".
- (f) Denotes programs required to be clustered by the United States Department of Agriculture.
- (g) Denotes programs required to be clustered by the United States Department of Education.

**NOTE C: RECONCILIATION TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS**

The following reconciles the Federal revenues reported in the June 30, 2007 Financial Statements to the expenditures of the District administered Federal programs reported on the Schedule of Expenditures of Federal Awards:

|  | <u>General<br/>Fund</u> | <u>Nonmajor<br/>Governmental<br/>Funds</u> | <u>Total</u>      |
|--|-------------------------|--|-------------------|
| Revenues from Federal sources per financial statements.  | \$ 650,465              | \$ 313,268                                 | \$ 963,733        |
| <u>Less:</u> Medical services portion of the Medicaid School Based Services program which is not subject to the Single Audit Act | ( 40,948 )              | -  | ( 40,948 )        |
| Federal expenditures per Schedule of Expenditures of Federal Awards  | <u>\$ 609,517</u>       | <u>\$ 313,268</u>                          | <u>\$ 922,785</u> |

Principals

Dale J. Abraham, CPA  
Michael T. Gaffney, CPA  
Steven R. Kirinovic, CPA  
Aaron M. Stevens, CPA  
Eric J. Glashouwer, CPA



**ABRAHAM & GAFFNEY, P.C.**

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**REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON  
COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS  
PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS**

To the Board of Education  
Mason Public Schools  
Mason, Michigan

We have audited the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Mason Public Schools as of and for the year ended June 30, 2007, and have issued our report thereon dated September 19, 2007. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered Mason Public School's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the District's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the District's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. However, as discussed below, we identified certain deficiencies in internal control over financial reporting that we consider to be significant deficiencies.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the District's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the District's financial statements that is more than inconsequential will not be prevented or detected by the District's internal control. We consider the deficiencies described as Findings 2007-1, 2007-2, and 2007-3 in the accompanying Schedule of Findings to be significant deficiencies in internal control over financial reporting.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the District's internal control.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. However, we believe that Finding 2007-2 of the significant deficiencies described in the Schedule of Findings is a material weakness.

### Compliance and Other Matters

As part of obtaining reasonable assurance about whether the District's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards* and which are described in the accompanying Schedule of Findings as Findings 2007-4 and 2007-5.

The District's responses to the findings identified in our audit are described in the accompanying Schedule of Findings. We did not audit the District's responses and, accordingly, we express no opinion on them.

This report is intended solely for the information and use of the administration, the Board of Education of Mason Public Schools, others within the District, the pass-through entities, and Federal awarding agencies and is not intended to be and should not be used by anyone other than these specified parties.

A handwritten signature in black ink that reads "Abraham & Gaffney, P.C." in a cursive, stylized font.

ABRAHAM & GAFFNEY, P.C.  
Certified Public Accountants

September 19, 2007



Mason Public Schools  
SCHEDULE OF FINDINGS  
Year Ended June 30, 2007

**Section I - Summary of Auditor's Results**

**Financial Statements**

Type of auditor's report issued: Unqualified

Internal control over financial reporting:

Material weakness(es) identified?   X   Yes        No

Significant deficiencies identified that are not considered to be material weakness(es)?   X   Yes        None reported

Noncompliance material to financial statements noted?        Yes   X   No

**Federal Awards**

Internal control over major programs:

Material weakness(es) identified?        Yes   X   No

Significant deficiencies identified that are not considered to be material weakness(es)?        Yes   X   None reported

Type of auditor's report issued on compliance for major programs: Unqualified

Any audit findings disclosed that are required to be reported by Section 510(a) of Circular A-133?        Yes   X   No

Identification of major programs:

| CFDA Number(s) | Name of Federal Program or Cluster |
|----------------|------------------------------------|
| 10.553, 10.555 | Child Nutrition Cluster            |

Dollar threshold used to distinguish between Type A and Type B programs: \$ 300,000

Auditee qualified as low-risk auditee?   X   Yes        No

**Section II - Financial Statement Findings**

**2007-1 Preparation of Financial Statements in Accordance with GAAP**

Condition: As part of the audit process, the District, as well as most governments, have historically relied on the independent auditors to assist in the preparation of the government-wide and fund financial statements, as well as the related notes to the financial statements, as part of its external financial reporting process. It is more cost effective to outsource the preparation of the annual financial statements to the independent auditors than to incur the time and expense of having the employees and/or management obtain the necessary training and expertise required to perform this task internally. Under the new auditing standards this is now a control deficiency that the District does not have the technical expertise to prepare the audited financial statements in accordance with accounting principles generally accepted in the United States of America (GAAP).

Mason Public Schools  
SCHEDULE OF FINDINGS - CONTINUED  
Year Ended June 30, 2007

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**Section II - Financial Statement Findings - continued**

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**2007-1 Preparation of Financial Statements in Accordance with GAAP - continued**

Criteria: Governmental entities are required to issue financial statements that are prepared in accordance with GAAP. Responsibility for the financial statements rests with the District's management. The preparation of financial statements in accordance with GAAP requires internal controls over both (1) recording, processing, and summarizing accounting data (i.e., maintaining internal accounting records), and (2) reporting government-wide and fund financial statements, including the related note disclosures (i.e., external financial reporting).

Effect: The District relies, in part, on the independent auditors for assistance with the preparation of annual financial statements and related notes to the financial statements in accordance with GAAP. This reliance makes the independent auditors effectively part of the District's internal controls. By definition, independent auditors cannot be part of the District's internal controls.

Recommendation: We recommend the District consider providing applicable employees with training that would allow them to attain the qualifications required to fully understand the GAAP financial statement preparation process. Should the District choose not to address this issue, management and the Board should realize that an increased risk is present in not having the proper internal control over financial reporting.

Corrective Action Response: The Superintendent and the Director of Finance have agreed to require additional financial reporting training for those most involved in such reporting.

**2007-2 Segregation of Duties**

Condition: During our consideration and assessment of fraud risk, we noted that the District may not have sufficient segregation of duties in its accounting structure. Specifically, we noted that one employee in the business office has access to all aspects of the accounts payable cycle, is responsible for maintenance of the general ledger, performs bank reconciliations, and processes ACH transactions.

Criteria: The intent of internal control is to assure that no one individual is able to control all aspects of a transaction cycle (i.e., receipts, disbursements, payroll, reconciling bank accounts, access to general ledger, etc.). While this is a common occurrence in many Districts due to the limited number of employees, the District should realize that a greater risk in safeguarding assets exists if duties and responsibilities are not appropriately arranged and separated.

Effect: Due to the limited number of employees involved in some of the District's key control activities, the District is assuming a greater risk of loss or misappropriation of assets.

Recommendation: We recommend that the District review various areas of operation and consider additional segregation of duties. If duties cannot be adequately segregated due to the limited number of employees, we suggest the District management provide a greater review and supervision of employee functions and procedures.

Corrective Action Response: The Superintendent and the Director of Finance had already, as of the date of this audit, begun a review of this issue, and have implemented some changes. More improvements are expected.

**2007-3 Fraud Risk Management Programs**

Condition: During the course of our audit, it was noted that the District has not adopted a formal fraud risk management program.

SCHEDULE OF FINDINGS - CONTINUED

Year Ended June 30, 2007

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**Section II - Financial Statement Findings - continued**

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**2007-3 Fraud Risk Management Programs - continued**

Criteria: A fraud risk management program may involve actively searching for fraudulent transactions through the use of techniques such as data mining, but should also inform management and employees as to the nature of fraud and actions expected to be taken if fraud is suspected. This would include publishing a definition of fraud, a statement that fraud will not be tolerated within the organization, and instructions for reporting fraud within the chain of command.

Effect: The District is exposed to a fraud risk due to the lack of anti-fraud programs that are appropriate to the size and complexity of the financial activities.

Recommendation: We recommend that anti-fraud programs should be developed, formally adopted, and implemented as part of the District's internal controls.

Corrective Action Response: The Superintendent and the Director of Finance have agreed to research the fraud risk management program of other districts, use them as aids in creating one that fits the Mason Public Schools, and formally adopt such a plan.

**2007-4 Unfavorable Budget Variances**

Condition: During our review of the District's compliance with the budgeting act, we noted that expenditures had exceeded the amounts appropriated for various activities in the General Fund, Food Service Fund, and Athletics Fund. The District's budget was not amended as it became apparent that expenditures would exceed the amounts appropriated for various activities of the General Fund, Food Service Fund, and Athletics Fund.

Criteria: The Uniform Budgeting and Accounting Act (Public Act 621 of 1978, as amended) requires the District to amend the original adopted budget "as soon as it becomes apparent that a deviation from the original general appropriations act is necessary and the amount of the deviation can be determined". The Act also states that "an administrative officer of the local unit shall not incur expenditures against an appropriation account in excess of the amount appropriated by the legislative body".

Effect: The District is not in compliance with the Uniform Budgeting and Accounting Act.

Recommendation: We recommend the District monitor expenditures against adopted budgets in all applicable funds and make appropriate budget amendments as needed.

Corrective Action Response: The Director of Finance will monitor each budget more closely.

**2007-5 Bond Audit Not Completed Within 120 Days**

Condition: During our audit for 2004 Bond Project, it was noted that the District is not in compliance with the required time period for the completion of bonded construction project audit. The audit of the bonded construction project was not completed within 120 days after completion of all projects financed by the proceeds of the bonds. The District was provided with a certificate of substantial completion on the project by the contractor, but did not notify the independent auditors within the required time frame in order for them to conduct the fieldwork within the 120 days.

Criteria: The Michigan Revised School Code (Public Act 451 of 1976, as amended), Section 388.1351(a) requires the District to have an independent audit, using generally accepted accounting principles, of its bonding activities under these sections conducted within 120 days after completion of all projects financed by the proceeds of the bonds and to submit the audit report to the Michigan Department of Treasury.

Mason Public Schools  
SCHEDULE OF FINDINGS - CONTINUED  
Year Ended June 30, 2007

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**Section II - Financial Statement Findings - continued**

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**2007-5 Bond audit not completed within 120 days - continued**

Effect: The District is not in compliance with Michigan Revised School Code.

Recommendation: We recommend the District request independent auditors to perform bond audit within the required time period when the District issues bonds in the future.

Corrective Action Response: The District agrees with the above recommendation.

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**Section III - Federal Award Findings and Questioned Costs**

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None

Mason Public Schools

SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS

Year Ended June 30, 2007

There were no findings disclosed for the past two (2) years.